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May 22, 2017

Via Hand Delivery
Ruby Potter
Health Facilities Coordinator
Maryland Health Care Commission
4160 Patterson Avenue
Baltimore, MD 21215

Re: Glen Meadows Retirement Community
Application to Purchase and Operate Publicly Available Nursing Home Beds – Matter #17-03-2395
Responses to Completeness Questions Received 4/27/17

Dear Ms. Potter:

I am in receipt of the correspondence to Peter Dabbenigno, Executive Director, Glen Meadows Retirement Community dated April 27, 2017 from Kevin McDonald concerning the above-mentioned matter. The responses from my client, Glen Meadows, to the questions follow.

PROJECT IDENTIFICATION AND GENERAL INFORMATION

1. Even though this project does not involve new construction or renovation, MHCC would like to have drawings on hand. <u>Please submit drawings of the current facility that meet the specifications described in the application.</u>

As was discussed on the telephone call with Mr. McDonald, the facility does not have drawings that would meet the specifications in the application since this project does not involve renovation or new construction. However, the attached drawing shows the layout of the rooms in the Health Care Center, the shared bathrooms and the semi-private rooms and private room. We have attached this as **Tab 9** for your binders.

CONSISTENCY WITH STATE HEALTH PLAN STANDARDS

Medical Assistance Participation

2. Standard A.(2)(c) requires an applicant to have a "written policy" stating its commitment "to continue to admit Medicaid residents to maintain its required level of participation when attained." Please submit such a policy.

Tab 10 includes GM's "Policy and Procedures related to Compliance with Requirements for Glen Meadows Retirement Community's Operation of Public Nursing Home Beds."

3. In responding to this standard Glen Meadows states that it: "...agrees to meet all of the requirements of this standard in regard to the patient days generated by admissions from the public" and that it "will not count any Medicaid days generated by GM CCRC members in the percentage." Please describe how the Medicaid participation commitment will be monitored to ensure it is fulfilled.

Presbyterian Senior Living maintains an integrated electronic records system which tracks census by payor. Each month, these data are summarized and reviewed in detail on a month-end call with Finance, the VP of Continuing Care Operations and the Executive Director of Glen Meadows. As part of this call and process, the team will review the results and ensure that the required Medicaid percentages are being met.

Appropriate Living Environment

4. Although this is not new construction or renovation, please state how the Glen Meadows CCF matches up with the characteristics described in standard 5(a) (i), (ii), and (iii).

Glen Meadows' skilled unit consists of 16 rooms – 15 semi-private rooms and one private room. There is a bathroom in each room shared by both residents in the room, and there is individual temperature control in each room. See **Tab 9** for the diagram.

Facility Occupancy

5. Glen Meadows did not meet the facility occupancy standard in the latest 12 months, and has included an explanation of why that might be. The standard also offers an applicant the opportunity to *show evidence why this rule should not apply.* You may add such an explanation if you wish.

This standard should not apply because GM's skilled unit has been a "closed campus" (only for CCRC subscribers) and has not been able to admit anyone directly from the general public. All residents in GM's skilled unit have paid an entrance fee to enter either Independent Living or Assisted Living in order to gain access to our nursing care. Hence, GM has not been able to augment its CCRC skilled residents with residents from outside the CCRC. This CON application is directly intended to enable GM to do so.

6. I also note, however, that data gleaned from MHCC's annual Nursing Home Survey shows Glen Meadows to have had a consistently high occupancy (averaged 94.4% between 2010 and 2015, reaching 97.7% and 97.8% in 2013 and '14 respectively - data summary attached). With that history, Glen Meadows should address how it can expect to open to the general public and still honor obligations to its CCRC residents.

As noted by our 2016 occupancy levels, the use of skilled nursing care services is declining, which is consistent with national data.

Should a resident of Glen Meadows need access to skilled nursing care, he or she will always first choice to an available bed in our Health Care Center. Once we are aware that one of our residents is in the hospital, we contact the case manager and immediately plan for their discharge. If we have available beds, a bed will be identified according to the anticipated discharge date. If we are fully occupied, we will hold the next bed that becomes available. Census is never static, and, with proper admissions and discharge planning, we will be able to honor the obligations we have to our CCRC residents.

As previously stated, there are other avenues available to our residents which are utilized as an option to admission to the skilled unit. These options include utilizing home health care services and residential nursing agency services.

7. This same data source shows that Glen Meadows has a high proportion of Medicare and Medicaid patient days for a CCRC. Please explain the nature of Glen Meadows's contracts with its residents and how payments for services are structured.

Glen Meadows' contracts are commonly referred to as Type C or fee-for-service continuing care contracts. This means that when CCRC residents are in need of skilled nursing or assisted living services, the residents pay the then current published fees for the services provided. There are no uncompensated or discounted days provided for in the contracts. When these services are provided, often starting with assisted living, private sources are expended first and used up fairly quickly. As a result, when skilled nursing services are required, after qualifying Medicare stays, Medicaid support is needed.

Tables

8. Provide a complete description of all assumptions that "fed" the utilization and revenue and expense tables associated with the CCF, and the rationale behind those assumptions. At minimum, address the assumptions behind projections of: admissions; length of stay; payor mix; and rates received by payor. In most cases, these assumptions

should be disclosed and discussed for both CCRC and public patients. Assumptions behind the expense lines should also be included.

The "Utilization, Revenue and Expense Tables Detailed Assumptions and Rationale" are provided in **Tab 11**.

9. Tables D and F request utilization and revenue/expense data, respectively, for the ENTIRE FACILITY; Tables E and G request the same information for the NEW FACILITY OR SERVICE. Glen Meadows completed only Tables D and F (Entire Facility). Please confirm that these tables reflect the entire CCRC operation.

Revised Tables D and F are attached for the Entire Facility and should be placed under Tab 2, D.2 and F.2. (A revised Table H is also being submitted and should be placed under Tab 2, H.2.)

What MHCC will need for this review is a set of tables in which Tables D and F reflect data for the entire CCRC and Tables E and G reflect data for the CCF component alone. Once those tables are received, they may generate further questions.

Tables E and G are completed and attached and should be inserted in the binder under Tab 2, E.2 and G.2.

10. Table F, your statement of recent and projected revenue & expenses, contains a math error that results in a significant understatement of Glen Meadows' losses in 2015 and 2016. (Deductions from revenue were added, rather than subtracted in those years.)

(a) Please correct this error and resubmit.

Tab 2, F.2 includes revised Table F. The formula has been corrected. Net income for 2015 and 2016 reported on Table F did tie to the audited financial statements (AFS). The original table submission did not tie to the AFS but when the data was converted into the document, an inconsistent formula was applied.

(b) Explain the significant growth in revenues projected for inpatient services in 2017 and subsequent years, and how that can occur when it appears that utilization and occupancy (as shown on Table D) don't show much if any growth.

The ""Utilization, Revenue and Expense Tables Detailed Assumptions and Rationale" in Tab 11 provides details of the revenue growth reported in Tables D and E. Budgeted occupancy, payer mix and reimbursement rates are defined for Public and CCRC residents.

(c) Notes to the consolidated financial statement describe the services provided by Presbyterian Senor Living (a full-time licensed administrator, a full-time bookkeeper, and a human resources employee) under a <u>management fee of $1.1M -$1.2M</u>. This seems a steep assessment for three employees. Has Glen Meadows sought to lower that fee, either through negotiations with Presbyterian Senor Living or by hiring their own employees directly?

The management fee charged to Glen Meadows includes additional staff and services than the positions noted above. Personnel and services covered by the management fee include:

- Executive Director salary and wage expense including a benefit allocation
- Human Resources salary and wage expense including a benefit allocation
    - Human Resources Area Director (20% of total staff expense)
    - Human Resources Manager (25% of total staff expense)
    - Human Resources Coordinator (100% of total staff expense)
    - Human Resources Assistant (5% of total staff expense)
- Business Office Coordinator salary and wage expense including a benefit allocation
- Regional Support Staff for Clinical Operations
- Administrative Office Support Staff and Services
    - Communications
    - Corporate Compliance Management
    - Corporate Human Services
    - Corporate Sales and Marketing
    - Finance and Accounting
    - Mission Support (Fundraising)
    - Operations Support
    - Senior Administrative Personnel
    - Senior Clinical Services Management

OTHER CON CRITERIA

Need

11. In addition to providing its assessment of nursing home beds needed in Baltimore County (which showed a continuing if declining surplus of beds) the application stated that "This project is needed to make GM profitable," and that "Even just five additional beds occupied even at Medicaid rates of $235 a day for a year would provide $428,000 incremental revenues to GM with very little additional cost incurred. With the additional beds, we would also have the flexibility of taking additional shorter term stays, if appropriate, and still serve all of the present GM residents' needs." Please provide

financial statements showing Glen Meadows's financial performance for the last 5 years for which information is available.

Audit reports showing the last 5 years' performance are attached in **Tab 12.**

Viability

12. The audited financial statements for 2015 show assets of \$34.7M and liabilities of \$58.7M. Explain why it is it likely that operating 10-12 public beds will enable a turnaround to firmer financial standing.

There are several reasons why allowing skilled residents from the public will enable a turnaround to firmer financial standing.

- Operating public beds will provide Glen Meadows options to manage occupancy and maintain a more consistent number of residents in the Health Center when CCRC resident occupancy levels decline. As noted above, additional revenues of \$428,000 will have very little expense associated therewith. Most of the cost of operating nursing centers is fixed. Presbyterian Senior Living has ten nursing centers which can admit from outside of their respective campuses. Each of these averages 15% to 20% more nursing occupancy than Glen Meadows.

- Securing the option of public admissions will mitigate financial losses attributed to declining utilization of Health Center services in favor of in-home care by existing CCRC residents.

- Stabilized occupancy levels will result in more efficient operations of the Health Center.

- Minimal incremental expense is projected for the increased Health Center occupancy. (We budgeted for additional nursing expense, therapy, pharmacy and ancillary expense.)

- The economies of scale of operating a 31-bed Health Center are significantly impacted by occupancy and payer mix fluctuations.

13. The loss for 2015 reported on the audited financials (\$693,435) differs from the loss of \$954,983 shown on Table F (which, as pointed out earlier, is an incorrect number anyway). Please explain.

The Unrealized Losses on Investments (\$261,548) was included on Table F Line 3.b. Non-Operating Income. This figure was removed.

A revised Table of Contents dated 5/22/17 is attached for your convenience.

Thank you for your assistance in this matter.

Very truly yours,

Rose M. Matricciani

RMM:lsl

Enclosures:
Revised Table of Contents dated 5/22/17

Tab 2

2.2 Revised CON TABLE PACKAGE FOR NURSING HOME (CCFs) APPLICATIONS
D.2 Revised Utilization Projections – Entire Facility
E.2 Revised Utilization Projections – New Facility or Service
F.2 Revised Revenues & Expenses, Uninflated – Entire Facility
G.2 Revised Revenues & Expenses, Uninflated – New Facility or Service
H.2 Revised Workforce Information

Tab 8.B

Affirmation Statements re: Completeness and Additional Information Request

Tab 9

Glen Meadows Health Care Center Drawing

Tab 10

Policy and Procedures related to Compliance with Requirements for Glen Meadows Retirement Community's Operation of Public Nursing Home Beds

Tab 11

Glen Meadow Retirement Community Utilization, Revenue and Expense Tables Detailed Assumptions and Rationale

Table 12

A. Consolidated Financial Statements December 31, 2012 and 2011
B. Consolidated Financial Statements December 31, 2013 and 2012
C. Consolidated Financial Statements December 31, 2014 and 2013

D. Consolidated Financial Statements December 31, 2015 and 2014

E. Consolidated Financial Statements December 31, 2016 and 2015

cc: Peter Dabbenigno, Executive Director
Presbyterian Senior Living Services, Inc. d/b/a Glen Meadows Retirement Community

Andrew L. Solberg, Consultant
A.L.S. Healthcare Consultant Services

2247184

REVISED TABLE OF CONTENTS
5/22/17
Matter #17-03-2395

2240463

CON TABLE PACKAGE FOR NURSING HOME (CCFs) APPLICATIONS

Name of Applicant: Glen Meadows Retirement Community

Date of Submission:

Applicants should follow additional instructions included at the top of each of the following worksheets. Please ensure all green fields (see above) are filled.

Table	Table Title	Instructions
Table A	Bed and Room Inventory	All Comprehensive Care facility applicants must complete Table A regardless of the project type and scope.
Table B	Construction and Renovation Square Footage	All applicants proposing new construction or renovation must complete Table B.
Table C	Project Budget	All applicants, regardless of project type or scope, must complete Table C.
Table D	Utilization - Entire Facility	Existing facility applicants must complete Table D. All applicants who complete this table must also complete Table F.
Table E	Utilization - New Facility or Service	Applicants who propose to: establish a new facility; a new service; or are directed by MHCC staff must complete Table E. All applicants who complete this table must also complete Table G.
Table F	Revenues & Expenses, Uninflated - Entire Facility	Existing facility applicants must complete Table F. The projected revenues and expenses in Table F should be consistent with the volume projections in Table D.
Table G	Revenues & Expenses, Uninflated - New Facility or Service	Applicants who propose to: establish a new facility; a new service and any other applicant who completes a Table D must complete Table G. The projected revenues and expenses in Table G should be consistent with the volume projections in Table E.
Table H	Workforce	All applicants, regardless of project type or scope, must complete Table H.
Table I	Bedside Care Staffing	All applicants, regardless of project type or scope, must complete Table I.
Table J	Construction Characteristics	All applicants proposing new construction or renovation must complete Table J.
Table K	Site and Offsite Costs Included and Excluded in Marshall Valuation Costs	All applicants proposing new construction or renovation must complete Table K

TABLE D. UTILIZATION PROJECTIONS - ENTIRE FACILITY

INSTRUCTION: Complete this table for the entire facility, including the proposed project. Account for all inpatient and outpatient volume that produce or will produce revenue. Indicate on the table if the reporting period is Calendar Year (CY) or Fiscal Year (FY). For sections 3 & 4, the number of beds and occupancy percentage should be reported on the basis of licensed beds. In an attachment to the application, provide an explanation or basis for the projections and specify all assumptions used. Applicants must explain why the assumptions are reasonable. See additional instruction in the column to the right of the table.

	Two Most Recent Years (Actual)		Current Year Projected	Projected Years - ending with full utilization and financial stability (3 to 5 years post project completion) Add columns if needed.						
Indicate CY or FY	CY 2015	CY 2016	CY 2017	CY 2018	CY 2019	CY 2020	CY 2021	CY 2022		
1. ADMISSIONS										
a. Comprehensive Care (public)	0	0	0	37	47	51	46	41		
b. Comprehensive Care (CCRC Restricted)	75	84	86	83	79	78	78	78		
Total Comprehensive Care	**75**	**84**	**86**	**120**	**126**	**129**	**124**	**119**	0	0
c. Assisted Living	13	26	30	31	32	32	32	32		
d. Dther Independent Living	38	36	38	39	40	40	40	40		
TOTAL ADMISSIONS	***126***	***146***	***154***	***190***	***198***	***201***	***196***	***191***		
2. PATIENT DAYS										
a. Comprehensive Care (public)	0	0	0	1,278	2,373	3,294	3,294	3,294		
b. Comprehensive Care (CCRC Restricted)	10,004	8,046	8,216	7,548	7,471	7,258	7,258	7,259		
Total Comprehensive Care	**10,004**	**8,046**	**8,216**	**8,826**	**9,844**	**10,552**	**10,552**	**10,553**	0	0
c. Assisted Living	9,154	10,177	9,621	9,800	10,000	11,000	10,750	10,750		
d. Dther Independent Living	67,306	66,940	66,580	67,000	67,500	67,800	67,800	67,800		
TOTAL PATIENT DAYS	***86,464***	***85,163***	***84,417***	***85,626***	***87,344***	***89,352***	***89,102***	***89,103***		
3. NUMBER OF BEDS										
a. Comprehensive Care (public)	0	0	0	10	10	10	10	10		
b. Comprehensive Care (CCRC Restricted)	31	31	31	21	21	21	21	21		
Total Comprehensive Care Beds	**31**	**31**	**31**	**31**	**31**	**31**	**31**	**31**	**0**	**0**
c. Assisted Living	41	41	41	41	41	41	41	41		
d. Dther Independent Living	196	196	196	196	196	196	196	196		
TOTAL BEDS	***268***	***268***	***268***	***268***	***268***	***268***	***268***	***268***	***0***	***0***
4. OCCUPANCY PERCENTAGE *IMPORTANT NOTE: *Leap year formulas should be changed by applicant to reflect 366 days per year.*										
a. Comprehensive Care (public)	#DIV/0!	#DIV/0!	#DIV/0!	35.0%	65.0%	90.0%	90.2%	90.2%	#DIV/0!	#DIV/0!
b. Comprehensive Care (CCRC Restricted)	88.4%	70.9%	72.6%	98.5%	97.5%	94.4%	94.7%	94.7%	#DIV/0!	#DIV/0!
Total Comprehensive Care Beds	**88.4%**	**70.9%**	**72.6%**	**78.0%**	**87.0%**	**93.0%**	**93.3%**	**93.3%**	**#DIV/0!**	**#DIV/0!**
c. Assisted Living	61.2%	67.8%	64.3%	65.5%	66.8%	73.3%	71.8%	71.8%	#DIV/0!	#DIV/0!
d. Dther Independent Living	94.1%	93.3%	93.1%	93.7%	94.4%	94.5%	94.8%	94.8%	#DIV/0!	#DIV/0!
TOTAL OCCUPANCY %	**88.4%**	**86.8%**	**86.3%**	**87.5%**	**89.3%**	**91.1%**	**91.1%**	**91.1%**	**#DIV/0!**	**#DIV/0!**
5. OUTPATIENT (specify units used for charging and recording revenues)										
a. Adult Day Care										
b. Dther (Specify/add rows of needed)										
TOTAL OUTPATIENT VISITS	***0***	***0***	***0***	***0***	***0***	***0***	***0***	***0***	***0***	***0***

TABLE E. UTILIZATION PROJECTIONS - NEW FACILITY OR SERVICE

INSTRUCTION: After consulting with Commission Staff, complete this table for the new facility or service (the proposed project). Account for all inpatient and outpatient volume that produce or will produce revenue. Indicate on the table if the reporting period is Calendar Year (CY) or Fiscal Year (FY). For sections 3 & 4, the number of beds and occupancy percentage should be reported on the basis of proposed beds. In an attachment to the application, provide an explanation or basis for the projections and specify all assumptions used. Applicants must explain why the assumptions are reasonable.

	Projected Years - ending with full utilization and financial stability (3 to 5 years post project completion) Add columns if needed.						
Indicate CY or FY	CY 2018	CY 2019	CY 2020	CY 2021	CY 2022		
1. ADMISSIONS							
a. Comprehensive Care (public)	37	47	51	46	41		
b. Comprehensive Care (CCRC Restricted)	83	79	78	78	78		
Total Comprehensive Care	**120**	**126**	**129**	**124**	**119**	0	0
c. Assisted Living							
d. Other (Specify/add rows of needed)							
TOTAL ADMISSIONS	*120*	*126*	*129*	*124*	*119*		
2. PATIENT DAYS							
a. Comprehensive Care (public)	1,278	2,373	3,294	3,294	3,294		
b. Comprehensive Care (CCRC Restricted)	7,548	7,471	7,258	7,258	7,259		
Total Comprehensive Care	8,826	9,844	10,552	10,552	10,553	0	0
c. Assisted Living							
TOTAL PATIENT DAYS	*8,826*	*9,844*	*10,552*	*10,552*	*10,553*		
3. NUMBER OF BEDS							
a. Comprehensive Care (public)	10	10	10	10	10		
b. Comprehensive Care (CCRC Restricted)	21	21	21	21	21		
Total Comprehensive Care Beds	31	31	31	31	31	0	0
c. Assisted Living							
d. Other (Specify/add rows of needed)							
TOTAL BEDS	*31*	*31*	*31*	*31*	*31*	*0*	*0*
4. OCCUPANCY PERCENTAGE *IMPORTANT NOTE:* *Leap year formulas should be changed by applicant to reflect 366 days per year.*							
a. Comprehensive Care (public)	35.0%	65.0%	90.0%	90.2%	90.2%	#DIV/0!	#DIV/0!
b. Comprehensive Care (CCRC Restricted)	98.5%	97.5%	94.4%	94.7%	94.7%	#DIV/0!	#DIV/0!
Total Comprehensive Care Beds	**78.0%**	**87.0%**	**93.0%**	**93.3%**	**93.3%**	**#DIV/0!**	**#DIV/0!**
c. Assisted Living	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
d. Other (Specify/add rows of needed)	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
TOTAL OCCUPANCY %	**78.0%**	**87.0%**	**93.0%**	**93.3%**	**93.3%**	**#DIV/0!**	**#DIV/0!**
5. OUTPATIENT (specify units used for charging and recording revenues)							
a. Adult Day Care							
b. Other (Specify/add rows of needed)							
TOTAL OUTPATIENT VISITS	*0*	*0*	*0*	*0*	*0*	*0*	*0*

TABLE F. REVE[illegible] & EXPENSES, UNINFLATED - ENTIRE FACILITY

<u>INSTRUCTION</u>: Complete this table for the entire facility, including the proposed project. The table should reflect current dollars (no inflation). Projected revenues and expenses should be consistent with the utilization projections in Table D reflecting changes in volume and with the costs of the Workforce identified in Table H. Indicate on the table if the reporting period is Calendar Year (CY) or Fiscal Year (FY). In an attachment to the application, provide an explanation or basis for the projected revenue and expenses specifying all assumptions used. Applicants must explain why the assumptions are reasonable. Revenue should be projected based on actual charges with calculations detailed in the attachment and Contractual Allowance should not be included if it is a positive adjustment to gross revenue. Specify the sources of non-operating income. See additional instruction in the column to the right of the table.

	Two Most Recent Years (Actual)		Current Year Projected	Projected Years - ending with full utilization and financial stability (3 to 5 years post project completion) Add columns if needed.						
Indicate CY or FY	CY 2015	CY 2016	CY 2017	CY 2018	CY 2019	CY 2020	CY 2021	CY 2022		
1. REVENUE										
a. Inpatient Services	$ 12,860,362	$ 12,910,304	$ 13,239,773	$ 14,072,630	$ 15,350,985	$ 16,629,207	$ 17,553,384	$ 18,590,712		
b. Outpatient Services	$ 840,765	$ 540,147	$ 354,322	$ 364,951	$ 375,900	$ 387,177	$ 398,792	$ 410,756		
Gross Patient Service Revenues	***$ 13,701,127***	***$ 13,450,451***	***$ 13,594,095***	***$ 14,437,582***	***$ 15,726,885***	***$ 17,016,383***	***$ 17,952,176***	***$ 19,001,468***	*$ -*	*$ -*
c. Allowance For Bad Debt	$ (14,637)	$ -	$ -							
d. Contractual Allowance	$ (794,571)	$ (1,091,694)	$ (1,169,690)	$ (1,308,107)	$ (1,534,882)	$ (1,777,100)	$ (1,878,456)	$ (1,939,111)		
e. Charity Care	$ (464,873)	$ (521,945)	$ (525,494)	$ (497,642)	$ (544,416)	$ (673,739)	$ (871,030)	$ (1,159,268)		
Net Patient Services Revenue	***$ 12,427,046***	***$ 11,836,812***	***$ 11,898,911***	***$ 12,631,833***	***$ 13,647,587***	***$ 14,565,545***	***$ 15,202,690***	***$ 15,903,089***	*$ -*	*$ -*
f. Other Operating Revenues (Specify/add rows if needed)										
Amortization/Residual Amortization	$ 841,134	$ 821,365	$ 811,674	$ 830,908	$ 850,616	$ 870,811	$ 891,505	$ 912,712		
Barber/Beauty Commissions	$ 10,954	$ 8,980	$ 10,000	$ 10,300	$ 10,609	$ 10,927	$ 11,255	$ 11,593		
Other	$ 2,529	$ 30,726	$ 66,130	$ 68,114	$ 70,157	$ 72,262	$ 74,430	$ 76,663		
NET OPERATING REVENUE	***$ 13,281,662***	***$ 12,697,884***	***$ 12,786,716***	***$ 13,541,155***	***$ 14,578,969***	***$ 15,519,545***	***$ 16,179,880***	***$ 16,904,056***	*$ -*	*$ -*
2. EXPENSES										
a. Salaries & Wages (including benefits)	$ 5,228,653	$ 5,440,257	$ 5,599,990	$ 5,795,904	$ 5,940,802	$ 6,089,322	$ 6,241,555	$ 6,397,594		
b. Contractual Services	$ 1,985,856	$ 1,424,459	$ 1,154,870	$ 1,316,665	$ 1,551,018	$ 1,589,793	$ 1,629,538	$ 1,670,276		
c. Interest on Current Debt	$ **276,891**	$ **318,292**	$ **426,305**	$ **527,589**	$ **499,081**	$ **469,368**	$ **438,399**	$ **406,119**		
d. Interest on Project Debt										
e. Current Depreciation	$ 1,902,583	$ 1,950,263	$ 1,931,197	$ 2,006,197	$ 2,081,197	$ 2,143,633	$ 2,197,224	$ 2,252,155		
f. Project Depreciation										
g. Current Amortization	*$ 16,229*	*$ 16,229*	*$ 16,229*	*$ 16,229*	*$ 16,229*	*$ 16,229*	*$ 16,229*	*$ 16,229*		
h. Project Amortization										
i. Supplies	$ 324,995	$ 383,924	$ 314,200	$ 322,055	$ 330,106	$ 338,359	$ 346,818	$ 355,488		
j. Other Expenses (Specify/add rows if needed)										
Management Fee	$ 1,175,220	$ 1,240,548	$ 1,134,392	$ 1,162,752	$ 1,191,821	$ 1,221,616	$ 1,252,157	$ 1,283,461		
Utilities	$ 749,663	$ 790,630	$ 738,404	$ 756,864	$ 775,786	$ 795,180	$ 815,060	$ 835,437		
Maintenance & Repair	$ 345,967	$ 190,562	$ 248,500	$ 254,713	$ 261,080	$ 267,607	$ 274,298	$ 281,155		
Real Estate Taxes	$ 340,913	$ 336,345	$ 336,000	$ 339,360	$ 342,754	$ 346,181	$ 349,643	$ 353,139		
Food	$ 682,341	$ 672,832	$ 660,459	$ 676,970	$ 693,894	$ 711,242	$ 729,023	$ 747,249		
Pharmacy & Medical Ancillaries	$ 161,471	$ 170,769	$ 184,189	$ 222,627	$ 277,667	$ 284,608	$ 291,723	$ 299,016		
Other	$ 731,721	$ 562,470	$ 643,042	$ 684,658	$ 706,865	$ 729,678	$ 747,920	$ 766,618		
TOTAL OPERATING EXPENSES	**$ 13,922,502**	**$ 13,497,581**	**$ 13,387,777**	**$ 14,082,583**	**$ 14,668,299**	**$ 15,002,817**	**$ 15,329,587**	**$ 15,663,936**	**$ -**	**$ -**
3. INCOME										
a. Income From Operation	**$ (640,840)**	**$ (799,697)**	**$ (601,061)**	**$ (541,428)**	**$ (89,330)**	**$ 516,728**	**$ 850,293**	**$ 1,240,120**	$ -	$ -
b. Non-Operating Income	$ (52,595)	$ 80,981	$ 170,000	$ 174,600	$ 179,328	$ 184,188	$ 189,183	$ 194,317		
SUBTOTAL	***$ (693,435)***	***$ (718,716)***	***$ (431,061)***	***$ (366,828)***	***$ 89,998***	***$ 700,916***	***$ 1,039,476***	***$ 1,434,437***	*$ -*	*$ -*
c. Income Taxes										
NET INCOME (LOSS)	***$ (693,435)***	***$ (718,716)***	***$ (431,061)***	***$ (366,828)***	***$ 89,998***	***$ 700,916***	***$ 1,039,476***	***$ 1,434,437***	*$ -*	*$ -*
4. PATIENT MIX										

TABLE F. REVE[illegible]S & EXPENSES, UNINFLATED - ENTIRE FACILITY

INSTRUCTION: Complete this table for the entire facility, including the proposed project. The table should reflect current dollars (no inflation). Projected revenues and expenses should be consistent with the utilization projections in Table D reflecting changes in volume and with the costs of the Workforce identified in Table H. Indicate on the table if the reporting period is Calendar Year (CY) or Fiscal Year (FY). In an attachment to the application, provide an explanation or basis for the projected revenue and expenses specifying all assumptions used. Applicants must explain why the assumptions are reasonable. Revenue should be projected based on actual charges with calculations detailed in the attachment and Contractual Allowance should not be included if it is a positive adjustment to gross revenue. Specify the sources of non-operating income. See additional instruction in the column to the right of the table.

	Two Most Recent Years (Actual)		Current Year Projected	Projected Years - ending with full utilization and financial stability (3 to 5 years post project completion) Add columns if needed.						
Indicate CY or FY	**CY 2015**	**CY 2016**	**CY 2017**	**CY 2018**	**CY 2019**	**CY 2020**	**CY 2021**	**CY 2022**		
a. Percent of Total Revenue										
1) Medicare	13.3%	11.9%	11.7%	13.9%	16.8%	17.9%	18.1%	18.2%		
2) Medicaid	6.9%	5.5%	5.8%	5.4%	5.2%	6.1%	6.5%	6.8%		
3) Blue Cross										
4) Commercial Insurance	0.7%	1.6%	2.0%	2.0%	2.1%	1.8%	1.5%	1.3%		
5) Self-pay	78.4%	79.9%	80.3%	76.9%	74.2%	72.5%	72.2%	72.1%		
6) Other	0.7%	1.1%	0.1%	1.8%	1.7%	1.7%	1.7%	1.6%		
TOTAL	***100.0%***	***100.0%***	***100.0%***	***100.0%***	***100.0%***	***100.0%***	***100.0%***	***100.0%***	***0.0%***	***0.0%***
b. Percent of Inpatient Days										
1) Medicare	2.3%	2.6%	2.5%	3.2%	4.1%	4.5%	4.7%	4.8%		
2) Medicaid	4.8%	3.6%	3.8%	3.6%	3.5%	4.2%	4.6%	4.8%		
3) Blue Cross										
4) Commercial Insurance	0.5%	0.1%	1.1%	1.0%	1.3%	1.2%	1.0%	0.9%		
5) Self-pay	92.3%	93.7%	92.6%	92.3%	91.0%	90.1%	89.7%	89.5%		
6) Other										
TOTAL	***100.0%***	***100.0%***	***100.0%***	***100.0%***	***100.0%***	***100.0%***	***100.0%***	***100.0%***	***0.0%***	***0.0%***

TABLE G. REVENUES & EXPENSES, UNINFLATED - NEW FACILITY OR SERVICE

INSTRUCTION: After consulting with Commission Staff, complete this table for the new facility or service (the proposed project). This table should reflect current dollars (no inflation). Projected revenues and expenses should be consistent with the utilization projections in Table E and with the Workforce costs identified in Table H. Indicate on the table if the reporting period is Calendar Year (CY) or Fiscal Year (FY). In an attachment to the application, provide an explanation or basis for the projections and specify all assumptions used. Applicants must explain why the assumptions are reasonable. Revenue should be projected based on actual charges with detailed calculation by payer in the attachment. The contractual allowance should not be reported if it is a positive adjustment to gross revenue Specify the sources of non-operating income. See additional instructions in the column to right of the table.

	Projected Years (ending five years after completion) Add columns of needed.						
Indicate CY or FY	CY 2017	CY 2018	CY 2019	CY 2020	CY 2021	CY 2022	
1. REVENUE							
a. Inpatient Services	$ 4,150,900	$ 4,719,846	$ 5,586,240	$ 6,213,817	$ 6,422,433	$ 6,601,566	
b. Outpatient Services	$ 53,609	$ 55,217	$ 56,874	$ 58,580	$ 60,337	$ 62,147	
Gross Patient Service Revenues	***$ 4,204,509***	***$ 4,775,063***	***$ 5,643,114***	***$ 6,272,397***	***$ 6,482,770***	***$ 6,663,713***	***$ -***
c. Allowance For Bad Debt	$ (20,000)	$ (20,500)	$ (21,013)	$ (21,538)	$ (22,184)	$ (22,849)	
d. Contractual Allowance	$ (1,169,690)	$ (1,308,107)	$ (1,534,882)	$ (1,777,100)	$ (1,878,456)	$ (1,939,111)	
e. Charity Care	$ -	$ -	$ -	$ -	$ -	$ -	
Net Patient Services Revenue	***$ 3,014,819***	***$ 3,446,456***	***$ 4,087,219***	***$ 4,473,759***	***$ 4,582,130***	***$ 4,701,753***	***$ -***
f. Other Operating Revenues (Specify)							
NET OPERATING REVENUE	***$ 3,014,819***	***$ 3,446,456***	***$ 4,087,219***	***$ 4,473,759***	***$ 4,582,130***	***$ 4,701,753***	***$ -***
2. EXPENSES							
a. Salaries & Wages (including benefits)	$ 2,121,670	$ 2,230,626	$ 2,286,392	$ 2,343,552	$ 2,402,141	$ 2,462,195	
b. Contractual Services	$ 498,346	$ 643,727	$ 861,256	$ 882,787	$ 904,857	$ 927,478	
c. Interest on Current Debt	**$ 21,017**	**$ 26,535**	**$ 25,793**	**$ 24,973**	**$ 21,613**	**$ 20,022**	
d. Interest on Project Debt							
e. Current Depreciation	$ 95,208	$ 101,286	$ 107,516	$ 110,741	$ 113,510	$ 116,348	
f. Project Depreciation							
g. Current Amortization	***$ 800***	***$ 800***	***$ 800***	***$ 800***	***$ 800***	***$ 800***	
h. Project Amortization							
i. Supplies	$ 71,854	$ 73,651	$ 75,492	$ 77,379	$ 79,313	$ 81,296	
j. Other Expenses (Specify)					$ -	$ -	
Management Fee	$ 313,021	$ 320,846	$ 328,867	$ 337,089	$ 345,516	$ 354,154	
Utilities	$ 31,557	$ 32,346	$ 33,155	$ 33,984	$ 34,834	$ 35,705	
Maintenance & Repair	$ 18,100	$ 18,552	$ 19,016	$ 19,491	$ 19,978	$ 20,477	
Real Estate Taxes							
Food	$ 188,627	$ 193,343	$ 198,177	$ 203,131	$ 208,209	$ 213,414	
Pharmacy & Medical Ancillaries	$ 144,605	$ 182,053	$ 236,078	$ 241,980	$ 248,030	$ 254,231	
Other	$ 167,306	$ 171,488	$ 175,775	$ 180,169	$ 184,673	$ 189,290	
TOTAL OPERATING EXPENSES	**$ 3,672,109**	**$ 3,995,253**	**$ 4,348,317**	**$ 4,456,076**	**$ 4,563,474**	**$ 4,675,410**	**$ -**
3. INCOME							
a. Income From Operation	**$ (657,290)**	**$ (548,797)**	**$ (261,098)**	**$ 17,683**	**$ 18,656**	**$ 26,343**	**$ -**
b. Non-Operating Income	$ -	$ -	$ -	$ -	$ -	$ -	
SUBTOTAL	***$ (657,290)***	***$ (548,797)***	***$ (261,098)***	***$ 17,683***	***$ 18,656***	***$ 26,343***	***$ -***
c. Income Taxes	$ -	$ -	$ -	$ -	$ -	$ -	
NET INCOME (LOSS)	***$ (657,290)***	***$ (548,797)***	***$ (261,098)***	***$ 17,683***	***$ 18,656***	***$ 26,343***	***$ -***
4. PATIENT MIX							
a. Percent of Total Revenue							
1) Medicare	39.2%	44.8%	51.1%	53.7%	55.1%	54.7%	
2) Medicaid	25.1%	21.8%	19.5%	22.0%	23.6%	24.2%	
3) Blue Cross							
4) Commercial Insurance	7.9%	8.1%	7.5%	6.6%	6.0%	5.9%	
5) Self-pay	27.8%	25.3%	21.9%	17.7%	15.3%	15.2%	
6) Other							
TOTAL	***100.0%***	***100.0%***	***100.0%***	***100.0%***	***100.0%***	***100.0%***	***0.0%***
b. Percent of Inpatient Days							
1) Medicare	26.0%	30.7%	36.2%	37.7%	38.5%	38.1%	
2) Medicaid	39.0%	35.1%	32.4%	36.3%	38.8%	39.5%	
3) Blue Cross							
4) Commercial Insurance	11.0%	11.6%	11.2%	9.7%	8.8%	8.6%	
5) Self-pay	24.0%	22.6%	20.2%	16.2%	13.9%	13.7%	
6) Other							
TOTAL	***100.0%***	***100.0%***	***100.0%***	***100.0%***	***100.0%***	***100.0%***	***0.0%***

TABLE H. WORKFORCE INFORMATION

INSTRUCTION: List the facility's existing staffing and changes required by this project. Include all major job categories under each heading provided in the table. The number of Full Time Equivalents (FTEs) should be calculated on the basis of 2,080 paid hours per year equals one FTE. In an attachment to the application, explain any factor used in converting paid hours to worked hours. Please ensure that the projections in this table are consistent with expenses provided in uninflated projections in Tables F and G. See additional instruction in the column to the right of the table.

	CURRENT ENTIRE FACILITY			*PROJECTED CHANGES AS A RESULT OF THE PROPOSED PROJECT THROUGH THE LAST YEAR OF PROJECTION (CURRENT DOLLARS)*			*OTHER EXPECTED CHANGES IN OPERATIONS THROUGH THE LAST YEAR OF PROJECTION (CURRENT DOLLARS)*			*PROJECTED ENTIRE FACILITY THROUGH THE LAST YEAR OF PROJECTION (CURRENT DOLLARS) **	
Job Category	**Current Year FTEs**	**Average Salary per FTE**	**Current Year Total Cost**	**FTEs**	**Average Salary per FTE**	**Total Cost** *(should be consistent with projections in Table G, if*	**FTEs**	**Average Salary per FTE**	**Total Cost**	**FTEs**	**Total Cost** *(should be consistent with projections in Table G)*
1. Regular Employees											
Administration *(List general categories, add rows if needed)*											
General & Administrative	5.2	$64,941	$335,696			$0		$0	$0	5.2	$379,809
Nursing Administration	2.6	$87,025	$230,533			$0		$0	$0	2.6	$260,827
			$0			$0			$0	0.0	$0
			$0			$0			$0	0.0	$0
Total Administration	7.8	$151,966	$566,229	0.0	$0	$0	0.0	$0	$0	7.8	$640,636
Direct Care Staff *(List general categories, add rows if needed)*											
Assisted Living Aide	5.1	$37,829	$193,909			$0			$0	5.1	$219,390
Assisted Living Assistant	1.4	$37,254	$53,213			$0			$0	1.4	$60,206
Assisted Living LPN	4.4	$59,261	$259,012			$0			$0	4.4	$293,048
Health Center RN	4.5	$87,290	$391,505			$0			$0	4.5	$442,952
Health Center LPN	1.6	$56,128	$88,077			$0			$0	1.6	$99,651
Health Center CNA	9.1	$38,167	$347,592	1.5	$39,121	$58,681			$0	10.6	$393,268
At Home Services	8.2	$43,262	$354,648			$0			$0	8.2	$401,252
Total Direct Care	34.3	$359,191	$1,687,956	1.5	$39,121	$58,681	0.0	$0	$0	35.8	$1,909,767
Support Staff *(List general categories, add rows if needed)*											
Maintenance	8.6	$59,361	$508,164			$0		$0	$0	8.6	$574,941
Security	4.8	$39,011	$187,833			$0		$0	$0	4.8	$212,516
Transportation	1.3	$31,512	$40,541			$0		$0	$0	1.3	$45,868
Housekeeping	10.6	$31,448	$333,245			$0		$0	$0	10.6	$377,036
Dietary	26.2	$35,602	$932,858			$0		$0	$0	26.2	$1,055,443
Resident Activities	4.1	$36,569	$149,176			$0		$0	$0	4.1	$168,779

TABLE H. WORKFORCE INFORMATION

Fitness	0.6	$41,803	$26,207			$0		$0	$0	0.6	$29,651
Chaplain	0.8	$58,669	$47,048			$0		$0	$0	0.8	$53,230
Social Services	1.0	$63,024	$63,206			$0		$0	$0	1.0	$71,512
			$0			$0		$0	$0	0.0	$0
			$0			$0		$0	$0	0.0	$0
			$0			$0		$0	$0	0.0	$0
Total Support	58.0	$396,998	$2,288,278	0.0	$0	$0	0.0	$0	$0	58.0	$2,588,977
REGULAR EMPLOYEES TOTAL	***100.1***	***$908,156***	***$4,542,463***	***1.5***	***$39,121***	***$58,681***	***0.0***	***$0***	***$0***	***101.6***	***$5,139,380***

TABLE H. WORKFORCE INFORMATION

2. Contractual Employees											
Administration *(List general categories, add rows if needed)*											
			$0			$0			$0	0.0	$0
			$0			$0			$0	0.0	$0
			$0			$0			$0	0.0	$0
			$0			$0			$0	0.0	$0
Total Administration			$0			$0			$0	0.0	$0
Direct Care Staff *(List general categories, add rows if needed)*											
			$0			$0			$0	0.0	$0
			$0			$0			$0	0.0	$0
			$0			$0			$0	0.0	$0
			$0			$0			$0	0.0	$0
Total Direct Care Staff			$0			$0			$0	0.0	$0
Support Staff *(List general categories, add rows if needed)*											
			$0			$0			$0	0.0	$0
			$0			$0			$0	0.0	$0
			$0			$0			$0	0.0	$0
			$0			$0			$0	0.0	$0
Total Support Staff			$0			$0			$0	0.0	$0
CONTRACTUAL EMPLOYEES TOTAL			$0			$0			$0	0.0	$0
Benefits *(State method of calculating benefits below)* **:**											
Percentage of Wages based on budget projections			$1,057,527			$13,662					$1,258,214
TOTAL COST	*100.1*		***$5,599,990***	*1.5*		***$72,343***	*0.0*		***$0***		***$6,397,594***

I hereby declare and affirm under the penalties of perjury that the facts stated in this Completeness and Additional Information response are true and correct to the best of my knowledge, information, and belief.

Signature

5-16-17

Date

2247203

I hereby declare and affirm under the penalties of perjury that the facts stated in this Completeness and Additional Information response are true and correct to the best of my knowledge, information, and belief.

Dan Davis ____________________ 5/19/2017 ____________________

Signature Date

2247203

I hereby declare and affirm under the penalties of perjury that the facts stated in this Completeness and Additional Information response are true and correct to the best of my knowledge, information, and belief.

Signature	5-19-2017 Date

2247203

I hereby declare and affirm under the penalties of perjury that the facts stated in this Completeness and Additional Information response are true and correct to the best of my knowledge, information, and belief.

05/19/2017

Signature Date

2247203

I hereby declare and affirm under the penalties of perjury that the facts stated in this Completeness and Additional Information response are true and correct to the best of my knowledge, information, and belief.

	5/18/2017
Signature	Date

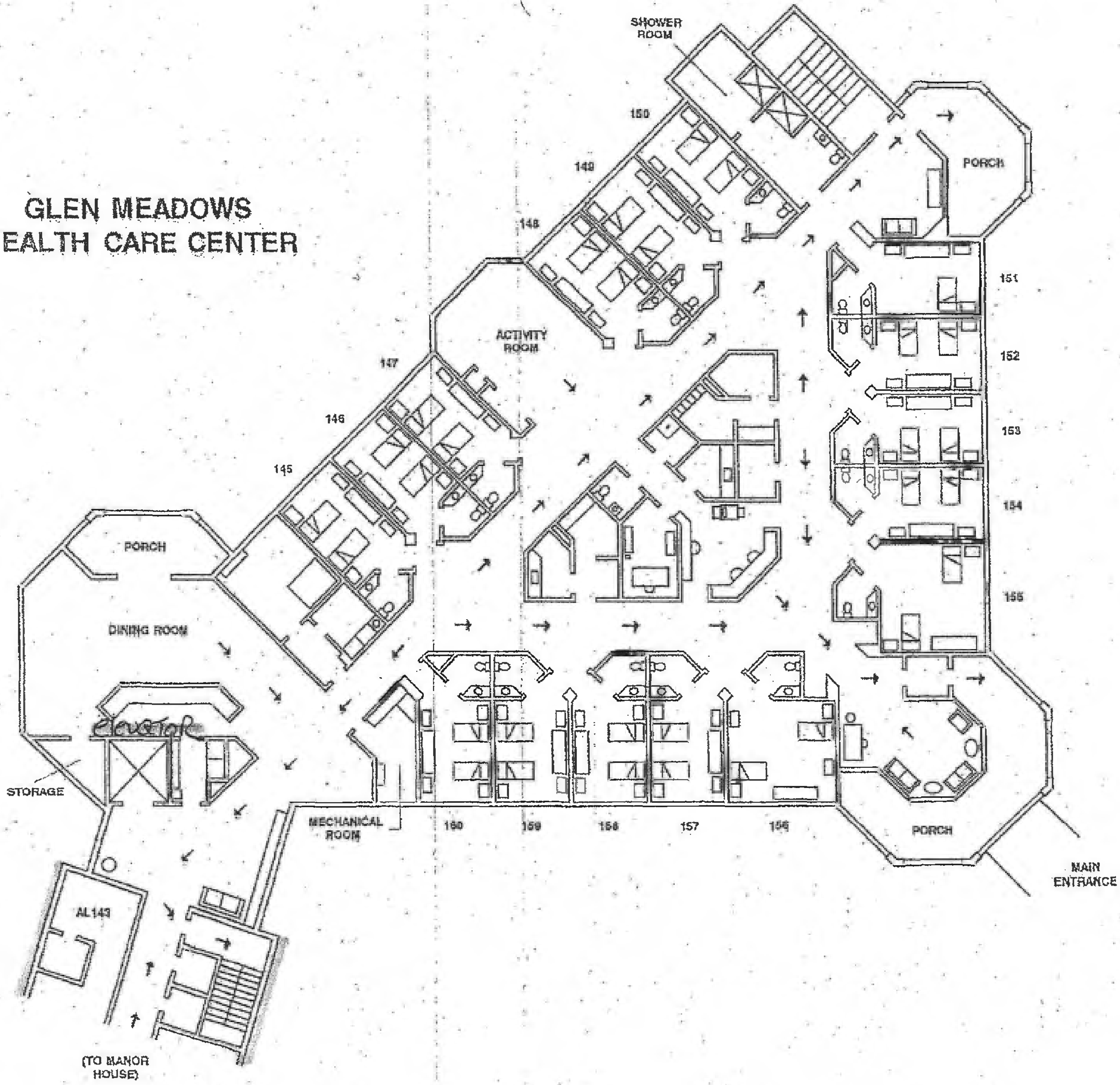
2247203

I hereby declare and affirm under the penalties of perjury that the facts stated in this Completeness and Additional Information response are true and correct to the best of my knowledge, information, and belief.

Signature

5/22/17
Date

GLEN MEADOWS
HEALTH CARE CENTER



PRESBYTERIAN
SENIOR LIVING

Title: Policy and Procedures related to Compliance with Requirements for Glen Meadows Retirement Community's Operation of Public Nursing Home Beds

Policy: Glen Meadows Retirement Community will remain in compliance with requirements for operating public nursing home beds.

Background: Glen Meadows Retirement Community is required to maintain a specified level of Medicaid participation in exchange for being granted permission to purchase and operate public nursing home beds. The level of participation is measured as follows:

$$\frac{\text{Total Medicaid Days for Residents admitted to Public Beds}}{\text{Total Nursing Home Days (including bed holds) for all Residents Admitted to Public Beds}}$$

Procedures: As follows:

1. Management will be responsible for implementing a mechanism for identifying residents admitted to public beds for purposes of calculating the required level of Medicaid participation as described above. These residents will not include those that have paid a Residency Investment Fee (Entrance Fee) to Glen Meadows Retirement Community.

2. Management will be responsible for reporting the actual level of participation on a monthly and year-to-date basis as part of its internal monthly financial reporting process.

3. Management will make the actual level of participation calculation available to the Maryland Health Care Commission upon request.

4. Management will implement an admission process that facilitates compliance with the required level of participation.

Glen Meadows Retirement Community
Utilization, Revenue and Expense Tables
Detailed Assumptions and Rationale

The basis for the projected utilization, revenues and expenses was the 2017 budget as approved by the Glen Meadows Board. The 2017 budget projected a loss of ($366,756). The approved budget figure for interest expense was adjusted by $64,305 to the estimated actual expense for 2017. Glen Meadows refinanced debt from a variable rate bond to fixed rate loan subsequent to the budget approval; thus, the actual projected expense was adjusted for the change in interest expense. This additional expense increased the budgeted 2017 loss to ($431,061) as shown on Table F. Line 2.c.

2017 revenues were budgeted based on historical data and census projections based on current operations – in other words, assuming all revenues would be generated by current residents of Glen Meadows with no public admissions into the Health Center.

For subsequent years, an inflation rate of 3% was applied to the 2017 budgeted average rate for all payer types. The reasoning behind these assumptions is as follows:

- Historically Health Center private pay rates have increased 2.5% - 3% each year.
- Skilled stays covered by Medicare and Commercial Insurance plans have trended to higher acuity RUG categories thus increasing the average reimbursement rates at a rate higher than the actual rate increases of approximately 1% - 1.5%.
- The facility average Medicaid CMI has steadily increased during the implementation of the acuity-based Medicaid reimbursement which has resulted in increased reimbursement rates.

Please reference the attached spreadsheet for details of the budget assumptions used for Health Center occupancy, payer mix, estimated reimbursement rates and budgeted revenues for CY 2017 through CY 2022. The number of admissions, length of stay, and payer mix were estimated based on historical data for CCRC residents. For public residents, the number of admissions, length of stay, and payer mix were estimated by trending census from a higher mix of short term/skilled residents to a higher mix of long-term/Medicaid residents.

Glen Meadows is not intending on increasing the total number of licensed beds available from the existing 31 beds. The projections were prepared assuming an average of 10 beds would be utilized for public admissions and 21 beds would be utilized by existing CCRC residents. This is an estimate only as the mix of bed utilization between public and CCRC residents will be monitored to ensure compliance with the State Health Plan Standards for publicly-admitted residents as well as maintaining sufficient bed availability for CCRC residents.

The budgeted 2017 expenses are based on historical data and projected staffing. The budget prepared for Glen Meadows was for the entire community as reported on Table F. In order to allocate budgeted expenses specifically for the Health Center as reported on Table G., several methodologies were applied to the total expenses. Some expenses could be directly allocated to the Health Center such as:

- Nursing Home Administrator salary and wage expense;
- Nursing salary and wage expense;
- Nursing Administration salary and wage expense;
- Medical Director expense; and
- Bad Debt expense for Dual Eligible Residents.

Other departmental expenses and ancillary expenses were allocated to the Health Center using statistics. The applied statistical methodologies are similar to statistics used in the Medicare Cost Report to allocate expenses to the Health Center and Non-Reimbursable cost centers (i.e. Assisted Living and Independent Living). A summary of the statistics used to allocate the 2017 budgeted expenses other than expenses noted above is as follows:

- Employee Benefits – allocated on % to Total basis using direct departmental wages
    - Health Center = 38.47%
- General and Administration – allocated on Accumulated Cost
    - Health Center = 27.59%
- Marketing – allocated on Time Study
    - Health Center = 0%
- Environmental Services salary and wage expense– allocated on Time Study
    - Health Center = 21.98%
- Environmental Services other expenses (including utilities) – allocated on Square Footage
    - Health Center = 4.93%
- Dining Services – allocated on Number of Meals Served
    - Health Center = 28.56%
- Laundry – allocated on Pounds of Laundry
    - Health Center = 100%
- Housekeeping – allocated on Time Study
    - Health Center = 20.31%
- Health Center Nursing - Actual
    - Health Center = 100%
- Assisted Living Nursing – Actual
    - Health Center = 0%
- Nursing Administration – Actual
    - Health Center = 100%
- Staff Development - allocated on % to Total basis using direct departmental wages
    - Health Center = 38.47%
- Physician (Medical Director) – Actual
    - Health Center = 100%
- Pharmacy – allocated on Budgeted Revenue

    - Health Center = 88.39%
- Ancillaries – allocated on Budgeted Revenue
    - Health Center = 70.13%
- Community Life (Resident Activities) and Chaplain – allocated on Time Study
    - Health Center = 20.65%
- At Home Services – allocated on Budgeted Revenue
    - Health Center = 0.72%
- Independent Living Health Services – Actual
    - Health Center = 0%
- Transportation – allocated on Time Study
    - Health Center = 2.33%
- Therapy – allocated on Budgeted Revenue
    - Health Center = 61.16%
- Fitness – Actual
    - Health Center = 0%
- Social Services – allocated on Time Study
    - Health Center = 83.09%
- Barber and Beauty Services – allocated on Budgeted Revenue
    - Health Center = 15.17%
- Depreciation and Interest Expense – allocated on Square Footage
    - Health Center = 4.93%

An inflation factor of 2.5% was applied to the 2017 figures for subsequent years with the following exceptions:

- Additional wages and benefits for Health Center CNAs as noted on Table H. Workforce were added in addition to the 2.5% increase applied to Table F. and Table G. Line 2.a. Salaries & Wages.
    - FTEs are projected to increase due to the increased Health Center occupancy as noted in the Utilization Projections on Table E. Section 4. The additional FTE expense was added in CY 2018 and carried forward through CY 2022.
- Additional therapy expense was added to Table F. and Table G. Line 2.b. Contractual Services in addition to the 2.5% increase for CY 2018 and CY 2019.
    - Therapy utilization is projected to increase due to increased occupancy and Medicare utilization as noted on Table E. Section 4 and Table G. Line 4.b.1).
    - CY 2020 – CY 2022 Contractual Services expenses are inflated 2.5% annually based on CY 2019.
- Additional pharmacy and ancillary expense was added to Table F. and Table G. Line 2.j. Other Expenses – Pharmacy & Medical Ancillaries in addition to the 2.5% increase for CY 2018 and CY 2019.
    - Expenses are projected to increase due to increased occupancy and Medicare utilization as noted on Table E. Section 4 and Table G. Line 4.b.1).

    - CY 2020 – CY 2022 Pharmacy & Medical Ancillaries expenses are inflated 2.5% annually based on CY 2019.
- Interest on Current Debt reported on Table F. and Table G. Line 2.c. is actual interest expense.
- Current Depreciation reported on Table F. and Table G. Line 2.e. was adjusted to include projected future capital expenditures based on historical data.
- Real Estate Taxes were inflated 1% for CY 2018 – CY 2022 on Table F. Line 2.j. Real Estate Taxes. A 2.5% inflation factor was determined to be excessive based on historical data.

2247613

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

Consolidated Financial Statements

December 31, 2012 and 2011

(With Independent Auditors' Report Thereon)

CarbisWalker LLP

Certified Public Accountants & Consultants

Members: Carbis Walker Group ■ McGladrey Alliance ■ AICPA Alliance for CPA Firms

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PRESBYTERIAN SENIOR LIVING SERVICES, INC.

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Certification of Chief Executive and Chief Financial Officers

We are responsible for the consolidated financial statements of Presbyterian Senior Living Services, Inc., as of December 31, 2012 and 2011, and attest that they are accurate, complete and fairly presented.

The accuracy and completeness of financial information depends on our systems, process, and most importantly our integrity. Our commitment to integrity is reflected in the code of conduct that the leadership of Presbyterian Senior Living has established as the standard for the entire organization. We believe that this commitment, our processes and internal controls produce financial information that can be trusted.

Consolidated financial statements report our financial position and results using numbers and prescribed rules. They also include a significant amount of information that is required by financial reporting standards. We believe these consolidated financial statements disclose information that is important to create a complete picture of our stewardship of financial resources.

Consolidated financial statements alone can never reflect the breadth and depth of our stewardship of this ministry. They do not report on our most significant assets, our employees and volunteers. They also do not reflect our most important stewardship role; our commitment to provide Christian understanding and compassion to those seniors entrusted to our care. We believe that we continue to successfully fulfill the financial and non-financial aspects of our mission, extending a proud tradition of ministry that has served older persons in the name of Christ for the past 86 years.

Finally, we believe in openly and honestly sharing information. Please feel free to contact either of us if you have questions on any part of this report, or if we can be of further assistance in understanding Presbyterian Senior Living's mission.

Stephen E. Proctor	Jeffrey J. Davis
Chief Executive Officer	Chief Financial Officer
Presbyterian Senior Living	Presbyterian Senior Living

Independent Auditors' Report

The Board of Directors
Presbyterian Senior Living Services, Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Presbyterian Senior Living Services, Inc. (an affiliate of PHI, doing business as Presbyterian Senior Living) (the Corporation) which comprise the consolidated statements of financial position as of December 31, 2012 and 2011, and the related consolidated statements of operations and changes in net assets (liabilities), and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Presbyterian Senior Living Services, Inc. as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Going Concern

The accompanying financial statements have been prepared assuming that Presbyterian Senior Living Services, Inc. will continue as a going concern. As discussed in Note 18 to the financial statements, the Corporation has suffered recurring losses from operations; its total liabilities exceeds total assets; and the Corporation's continued operations are dependent upon the continued support of Presbyterian Senior Living. This raises substantial doubt about the Corporation's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this support.

Carbis Walker LLP
New Castle, Pennsylvania
March 29, 2013

Carbis Walker LLP

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

Consolidated Statements of Financial Position

December 31, 2012 and 2011

Assets		2012	2011
Cash and cash equivalents	$	797,130	561,832
Investments		1,250,000	890,000
Restricted deposits and funded reserves		1,567,312	1,545,726
Accounts receivable, net		1,155,571	861,682
Prepaid expenses and other current assets		184,205	185,785
Assets whose use is limited		999,288	849,205
Assets held for sale		97,809	—
Property and equipment (net of accumulated depreciation of $25,497,365 and $24,016,028, respectively)		30,952,242	31,506,193
Assets under capital leases (net of accumulated amortization of $18,701 and $12,977, respectively)		17,172	—
Deferred financing costs (net of accumulated amortization of $215,945 and $199,716, respectively)		248,725	264,954
Total assets	$	37,269,454	36,665,377

See accompanying notes to consolidated financial statements.

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

Consolidated Statements of Financial Position

December 31, 2012 and 2011

Liabilities and Net Liabilities	**2012**	**2011**
Accounts payable	$ 505,837	538,428
Accrued expenses	469,836	382,482
Resident deposits	63,300	135,439
Entrance fee payable	19,527,179	20,349,049
Deferred revenue – entrance fees	3,235,237	2,594,534
Annuities payable	30,969	32,635
Obligations under capital leases	17,339	—
Bonds payable	16,220,000	16,720,000
Due to affiliated entity	20,630,865	19,552,737
Total liabilities	60,700,562	60,305,304
Net (liabilities) assets:		
Unrestricted	(23,973,071)	(24,172,006)
Temporarily restricted	173,859	163,975
Permanently restricted	368,104	368,104
Total net liabilities	(23,431,108)	(23,639,927)
Total liabilities and net liabilities	$ 37,269,454	36,665,377

See accompanying notes to consolidated financial statements.

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

Consolidated Statements of Operations and Changes in Net Assets (Liabilities)

Years ended December 31, 2012 and 2011

		2012	2011
Operating revenues, gains, and other support:			
Resident services, including amortization of entrance fees of $670,278 and $544,005, respectively	$	12,286,744	12,136,748
Interest and dividend income		132,447	80,554
Realized gains on investments		128,438	75,118
Loss on disposal of property and equipment		(62,093)	(830)
Gifts and bequests		980	4,457
Net assets released from restrictions		46,738	87,082
Total operating revenues, gains, and other support		12,533,254	12,383,129
Expenses:			
Nursing services		2,468,632	2,463,526
Rehabilitation		533,464	561,262
Recreation and special services		453,076	427,343
Pharmacy		83,826	79,722
Social services		52,153	54,227
Physician services		28,350	28,284
Food services		1,761,468	1,763,125
Building operations and maintenance		2,053,797	2,112,947
Housekeeping		354,348	360,436
Laundry and linen		68,397	61,928
General and administrative		1,587,416	1,112,391
Employee benefits		618,953	651,448
Interest		319,048	353,763
Depreciation		1,694,395	1,680,408
Amortization		16,229	16,228
Total expenses		12,093,552	11,727,038
Operating income		439,702	656,091
Loss on abandoned project		(451,714)	–
(Deficit) excess of operating revenues, gains and other support over expenses		(12,012)	656,091
Other changes:			
Unrealized gain (loss) on investments		210,947	(256,987)
Decrease in unrestricted net liabilities		198,935	399,104

See accompanying notes to consolidated financial statements.

(Continued)

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

Consolidated Statements of Operations and Changes in Net Assets (Liabilities)

Years ended December 31, 2012 and 2011

	2012	2011
Temporarily restricted net assets:		
Contributions, gifts and bequests	40,795	85,445
Interest and dividend income	15,827	20,514
Net assets released from restrictions	(46,738)	(87,082)
Change in temporarily restricted net assets	9,884	18,877
Permanently restricted net assets:		
Contributions	–	4,000
Change in permanently restricted net assets	–	4,000
Change in net (liabilities) assets	208,819	421,981
Net (liabilities) assets, beginning of year	(23,639,927)	(24,061,908)
Net (liabilities) assets, end of year	$ (23,431,108)	(23,639,927)

See accompanying notes to consolidated financial statements.

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

Consolidated Statements of Cash Flows

Years ended December 31, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Change in net liabilities	$ 208,819	421,981
Adjustments to reconcile change in net liabilities to net cash provided by operating activities:		
Depreciation	1,694,395	1,680,408
Provision for bad debt	107,438	(27,156)
Loss on abandoned project	451,714	—
Proceeds from entrance fees and deposits	5,039,409	4,134,320
Amortization of entrance fees	(670,278)	(544,005)
Unrealized (gain) loss on investments	(210,947)	256,987
Realized gains on investments	(128,438)	(75,118)
Realized loss on disposal of property and equipment	62,093	830
Contributions restricted for long-term purposes	—	(4,000)
Amortization	16,229	16,228
Change in assets and liabilities:		
Accounts receivable	(401,327)	4,555
Prepaid expenses and other current assets	1,580	(1,562)
Accounts payable	(32,591)	(562,267)
Accrued expenses	87,354	(81,355)
Net cash provided by operating activities	6,225,450	5,219,846
Cash flows from investing activities:		
Acquisition of property and equipment	(1,769,232)	(835,204)
Purchases of investments	(2,730,944)	(2,877,407)
Proceeds from sale of investments	2,538,660	2,902,047
Net cash used in investing activities	(1,961,516)	(810,564)
Cash flows from financing activities:		
Refunds of entrance fees and deposits	(3,800,567)	(3,572,976)
Change in entrance fee payable	(821,870)	(3,075,824)
Principal payments and redemptions of bonds	(500,000)	(465,000)
Borrowings through capital lease obligations	22,896	—
Repayments on capital lease obligations	(5,557)	(10,850)
Contributions restricted for long-term purposes	—	4,000
Change in annuities payable	(1,666)	481
Change in due to affiliated entity	1,078,128	3,142,693
Net cash used in financing activities	(4,028,636)	(3,977,476)
Net increase in cash and cash equivalents	235,298	431,806
Cash and cash equivalents, beginning of year	561,832	130,026
Cash and cash equivalents, end of year	$ 797,130	561,832
Supplemental schedule of non-cash investing activities		
Increase in assets held for sale through decrease in property and equipment	$ (97,809)	–

See accompanying notes to consolidated financial statements.

(1) General Information

Presbyterian Senior Living Services, Inc. (the Corporation) is a not-for-profit corporation, which operates Glen Meadows Retirement Community, a Continuing Care Retirement Community (the Community) located in Glen Arm, Maryland, which provides housing, health care, and other related services to the elderly. The Corporation is also the parent company to a fully controlled affiliate Glen Meadows Retirement Community, Inc. (GMRCI). The Glen Meadows Foundation (the Foundation) was established for the exclusive benefit of the Community and certain assets held by the Corporation are designated for the Foundation. The consolidated financial statements of the Corporation include the financial position and operations of GMRCI and the Foundation. The Corporation and Foundation are governed by independent Boards of Directors, who are elected by the Board of Trustees of PHI, doing business as Presbyterian Senior Living, the Corporation's parent organization, the residents of Glen Meadows and the Presbytery of Baltimore.

The Community contains 113 independent living cottages, 72 independent living apartments, 36 assisted living units and a 31-bed skilled nursing facility. The facility covers approximately 60 acres of the 483-acre site owned by the Corporation.

The Corporation was formed on July 1, 1999 whereby all operations of Presbyterian Senior Services, Inc. (PSSI) were transferred to Presbyterian Senior Living Services, Inc. and Glen Meadows Retirement Community, Inc. PSSI's corporate existence was discontinued. Under this new structure, the property, plant and certain equipment of PSSI were transferred to Glen Meadows Retirement Community, Inc., and the operations, other assets, and all liabilities of PSSI were transferred to Presbyterian Senior Living Services, Inc. Presbyterian Senior Living Services, Inc. is a fully controlled subsidiary of Presbyterian Senior Living, located in Dillsburg, Pennsylvania.

(2) Summary of Significant Accounting Policies

(a) Basis of Consolidation

These consolidated financial statements have been prepared to focus on Presbyterian Senior Living Services, Inc. as a whole. All material intercompany transactions have been eliminated.

(b) Basis of Accounting

These consolidated financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the Corporation as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions.

(b) Basis of Accounting (continued)

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

(c) Income Taxes

The Corporation and its subsidiaries are tax exempt under Section 501(c)(3) of the Internal Revenue Code.

The Corporation follows the Financial Accounting Standards Board (FASB) accounting standard for accounting for uncertainty in income taxes. This standard clarifies the accounting for uncertainty in income taxes in a company's consolidated financial statements and prescribes a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold has been met. The standard also provides guidance on derecognition, classification, interest and penalties, and disclosure. Management has determined that this standard does not have a material impact on the consolidated financial statements.

The Corporation's federal Exempt Organization Business Income Tax Returns for the years ended December 31, 2009 and 2010 and 2011 remain subject to examination by the Internal Revenue Service.

(d) Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(e) *Cash and Cash Equivalents*

The Corporation considers all liquid investments with a maturity of three months or less when purchased to be cash equivalents, for the purposes of the consolidated statements of financial position and cash flows, except for those included in investments or assets whose use is limited. The Corporation's cash and cash equivalents are insured by the Federal Deposit Insurance Corporation (FDIC) for up to $250,000 per bank. At times during 2012 and 2011, the Corporation's cash balances may have exceeded the FDIC coverage. The Corporation has not experienced any loss in these accounts.

(f) *Investments*

Investments in marketable equity securities and mutual funds with readily determinable fair values and all investments in debt securities are measured at fair value as determined by a national exchange in the consolidated statements of financial position. A decline in market value of any investment below cost that is deemed to be other than temporary results in a reduction in carrying amount to fair value. The impairment is charged to realized loss and a new cost basis for the investment is established. For the years ended December 31, 2012 and 2011, no amounts were charged to realized loss for this purpose as management believes the decline in value is temporary due to general economic conditions and not an other than temporary decline in value.

Investment income consisted of the following:

	2012	2011
Interest and dividends	$ 148,274	101,068
Realized gains on investments	128,438	75,118
Unrealized gain (loss) on investments	210,947	(256,987)
	$ 487,659	(80,801)

Investment expense of $9,381 and $10,805, for the years ended December 31, 2012 and 2011, respectively, have been included in general and administrative expenses.

(g) Accounts Receivable

Accounts receivable are shown net of an estimated allowance for doubtful accounts, as follows:

	2012	2011
Total accounts receivable	$ 1,386,977	1,011,778
Less: allowance for doubtful accounts	(231,406)	(150,096)
Net accounts receivable	$ 1,155,571	861,682

Receivables are considered past due when payments have not been received by the Corporation within 60 days of their contractually stated due date.

The allowance for doubtful accounts is established based on management's assessment of the collectibility of specific customer accounts and the aging of the accounts receivable. Losses are charged against the allowance for doubtful accounts when management believes the uncollectibility of a receivable is likely.

(h) Restricted deposits and funded reserves

Restricted deposits and funded reserves are measured at fair value in the consolidated statements of financial position and include the Maryland Department of Aging Operating Reserve.

(i) Assets Whose Use is Limited

Assets whose use is limited are measured at fair value in the consolidated statements of financial position and include money deposited with a trustee under a debt agreement and assets restricted by donors for capital improvements.

(j) Property and Equipment

Property and equipment are stated at cost or, if donated, at fair market value on the date of donation. Depreciation is being provided on the straight-line method over the estimated useful lives of the assets. The Corporation's policy is to capitalize items in excess of $3,000 or for a group of items that are the same or similar in nature or function as a group totaling $3,000 or more.

Depreciable lives are determined as follows:

Land improvements	15-25 years
Buildings and improvements	10-40 years
Departmental equipment, furniture, and fixtures	10-25 years
Vehicles	5 years

(k) Deferred Financing Costs

The Corporation has deferred the costs incurred for obtaining the proceeds of the Corporation's bonds payable. These costs are being amortized over the life of the related bond using the straight-line method, which approximates the effective interest method. Amortization expense is expected to be $16,229 for each of the next five years.

(l) Resident Deposits

Entrance fees and waiting list deposits received from prospective residents prior to occupancy under Residence and Care Agreements are included in resident deposits in the consolidated statements of financial position. These deposits are transferred to deferred revenue upon occupancy of the related independent living units.

(m) Deferred Revenue – Entrance Fees

Residents entering the Community execute a Residence and Care Agreement, which requires payment of an entrance fee, based on the unit to be occupied. Ten percent of the entrance fee, as approved by the Maryland Department of Aging, is due upon execution of the agreement and the remainder is due upon occupancy. For the 100% refundable contracts, entrance fees are refundable in full upon termination of the agreement and subsequent reoccupancy of the unit. These entrance fees are not being amortized into revenue. The Community also offers a 50% and a 75% nonrefundable contract. The non-refundable portion of the fees is amortized to income over the estimated remaining life expectancy of each resident. The portion of the guaranteed fee refundable upon reoccupancy is not being amortized. The agreements provide for potential death or termination refunds of the non-refundable portion if reoccupancy occurs before the contractual amortization is completed in accordance with the terms of the agreements. The remaining amount of unamortized, nonrefundable entrance fees is recorded as revenue upon surrender of the independent living unit.

Effective January 1, 2010, the Corporation changed its method of amortizing refundable entrance fees and the refundable portion of resident entrance fees. Previously, the guaranteed entrance fee refundable was amortized on a straight-line basis over the remaining useful life of the applicable independent living unit. To better reflect economic reality, the Corporation has discontinued the amortization of the guaranteed refundable portion of entrance fees and the fully guaranteed refundable portion is reflected as a liability on the consolidated statements of financial position.

As of December 31, 2012 and 2011, the amount of entrance fees guaranteed to be refundable to residents under contractual refund provisions was $19,527,179 and $20,349,049, respectively.

(n) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Corporation has been limited by donors to a specific time period or purpose. The Corporation's temporarily restricted net assets consist principally of funds directed for special projects and resident welfare. Net assets released from restriction consist of expenses incurred satisfying those restricted purposes. Permanently restricted net assets have been restricted by donors to be maintained by the Corporation in perpetuity. Income from the permanently restricted net assets is primarily to be used for resident welfare.

(o) Donor Restrictions

The Corporation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose to which the donation is restricted is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of operations and changes in net assets (liabilities) as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying consolidated financial statements.

The Corporation reports non-cash gifts as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Corporation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

(p) Resident Services Revenue and Business Concentration

Resident services revenue is reported at the estimated net realizable amount to be received from patients and others including Medicare, Maryland Medicaid (Medicaid), and other third-party payors for services rendered. The Corporation derives a significant portion of its revenues from federal and state reimbursement programs. These reimbursements are subject to audit and retroactive adjustment in future periods.

Skilled nursing services provided to Medicare beneficiaries are paid under the terms of a prospective payment system ("PPS") at predetermined rates based on clinical, diagnostic, and other factors.

Nursing services provided to Medicaid beneficiaries are paid at prospectively determined rates per day. These rates vary according to a resident classification system that is based on clinical diagnosis and other factors, and the reimbursement methodology is subject to various limitations and adjustments. The Corporation's existence in Maryland exposes it to the risk of changes in Medicaid reimbursement in this state.

Revenues from Medicare and Medicaid represent approximately 18% of consolidated revenues for both 2012 and 2011. Medicare and Medicaid receivables represent approximately 20% and 23% of consolidated accounts receivable at December 31, 2012 and 2011, respectively.

(q) *Charity Care*

In 2011, the Corporation adopted the new accounting standards update from the Financial Accounting Standards Board (FASB) regarding charity care. This standard was issued to improve disclosures about charity care to prescribe a specific measurement basis of charity care. This guidance prescribed that the amount of charity care disclosed in the consolidated financial statements should be measured based on the providers direct and indirect costs of providing charity care services. The guidance also provided that if costs cannot be specifically attributed to services provided to charity care patients, that reasonable techniques could be used to estimate these costs, and that these techniques should be disclosed and that any funds received to offset or subsidize charity care services also should be disclosed.

The Corporation's policy is to provide services without charge, or at amounts less than its established rates to residents who meet the certain need based criteria. These criteria consider resident income and expenses, financial resources, State and Federal government requirements, and other sources of payment for services which may be provided. The Corporation also receives donations and income from permanently restricted trusts and investments designated to the needs of its residents under this policy.

Amounts the Corporation provided and received for resident financial support are as follows:

	2012	2011
Charity care provided at the estimated cost thereof, net of amounts received from residents and third party payors	$ 42,619	—
Additional benevolent care provided at amounts less than pre-established charges for private pay services	525,319	457,692
Giving and income designated for resident financial support	37,529	78,445

(r) ***Classification of Expenses***

		2012	2011
Program activities	$	10,506,136	10,614,647
General and administrative		1,575,918	1,106,452
Fundraising		11,498	5,939
	$	12,093,552	11,727,038

(s) ***Fundraising Expense***

Fundraising expenses incurred by the Corporation are included in general and administrative on the consolidated statements of operations and changes in net assets (liabilities).

(t) ***Advertising***

Advertising costs are expensed in the years incurred. Total advertising expense for the years ended December 31, 2012 and 2011, were $33,763 and $21,043, respectively.

(u) ***Contributed Services***

Contributed services are reflected in the accompanying consolidated financial statements at their estimated fair value at the date of receipt to the extent they create or enhance nonfinancial assets or require specialized skills which, if not provided by donation, would have to be purchased by the Corporation. No amounts have been included in the accompanying consolidated financial statements as amounts are not material.

(v) ***Operating Income***

The consolidated statements of operations and changes in net assets (liabilities) include an intermediate measure of operations labeled as "operating income." Changes in the performance indicator which are excluded from this measure include loss on abandoned project.

(w) ***Performance Indicator***

The Corporation measures the performance of its operations using the consolidated statements of operations and changes in net assets (liabilities), which includes a performance indicator of operations labeled as "(Deficit) excess of operating revenues, gains, and other support over expenses." Changes in unrestricted net (liabilities) assets which are excluded from this measure are unrealized gain (loss) on investments.

(x) ***Consolidated Statements of Cash Flows***

Interest paid during the years ended December 31, 2012 and 2011 were $256,630 and $358,703, respectively.

(y) ***Subsequent Events***

Thc Corporation has adopted the standard relating to subsequent events. This standard provides guidance on accounting for and disclosure of events that occur after the consolidated statement of financial position date but before consolidated financial statements are issued or are available to be issued.

The Corporation has evaluated subsequent events through March 29, 2013, which is the date the consolidated financial statements were released.

(3) Investments

The cost and fair value of investments at December 31 are as follows:

	2012		2011	
	Fair Value	Cost	Fair Value	Cost
Money market funds	$ 299,623	299,623	219,632	219,632
Equity securities	2,728,164	2,543,723	2,294,021	2,304,232
Fixed income securities	788,813	767,463	771,278	772,108
Totals	$ 3,816,600	3,610,809	3,284,931	3,295,972
Less:				
Restricted deposits and funded reserves (note 5)	(1,567,312)		(1,545,726)	
Assets whose use is limited (note 6)	(999,288)		(849,205)	
Total investments	$ 1,250,000		890,000	

(3) Investments (continued)

The Corporation holds its investments in the operating reserve fund. These assets are invested in a diversified portfolio of mutual funds. The Corporation had nineteen mutual funds as of December 31, 2012. As of December 31, 2012, three mutual funds had a market value below cost. The Corporation had twenty-four mutual funds as of December 31, 2011. As of December 31, 2011, thirteen mutual funds had a market value below cost.

Two mutual funds had a market value that had been below cost for less than a year as of December 31, 2012. In total, its market value of the loss was less than two percent below cost for 2012. Thirteen mutual funds had a market value that had been below cost for less than a year as of December 31, 2011. In total, its market value of the loss was less than six percent below cost for 2011.

One mutual fund had a market value that had been below cost for more than one year as of December 31, 2012. In total, its market value was less than four percent below cost for 2012. No mutual funds had a market value that had been below cost for more than one year as of December 31, 2011.

A summary of investments with fair values below cost as of December 31, 2012 follows:

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mututal funds	$ 210,509	(3,097)	108,831	(3,642)	319,340	(6,739)
Total temporarily impaired investments	$ 210,509	(3,097)	108,831	(3,642)	319,340	(6,739)

A summary of investments with fair values below cost as of December 31, 2011 follows:

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mututal funds	$ 1,093,437	(62,418)	—	—	1,093,437	(62,418)
Total temporarily impaired investments	$ 1,093,437	(62,418)	—	—	1,093,437	(62,418)

(4) Related Party Transactions

The Corporation incurs a management fee payable to Presbyterian Senior Living, under a Development, Marketing, and Management Agreement (Management Agreement). Under the Management Agreement, Presbyterian Senior Living provides a full-time licensed administrator who is responsible for the facility's operation, under the direction of Presbyterian Senior Living, a full-time bookkeeper and a human resources employee. For 2012, the Corporation incurred fees under the agreement of $309,547. For 2011, the Corporation was only required to pay the fee for the bookkeeper and human resources staff, which amounted to $97,788. This fee is classified as general and administrative expenses on the consolidated statements of operations and changes in net assets (liabilities).

The Obligated Group, which consists of several subsidiaries of Presbyterian Senior Living, has guaranteed full payment to the extent collateral is insufficient to satisfy the outstanding debt of the Corporation as described in Note 9.

At December 31, 2012 and 2011 the amounts payable to Presbyterian Senior Living, were $20,630,865 and $19,552,737, respectively. Under the Management Agreement, this is included in due to affiliated entity.

Prelude Systems, Inc. (Prelude) is a joint venture between Presbyterian Senior Living and Diakon Lutheran Social Ministries (Diakon). Prelude is an information technology services organization with a wide range of programs designed to support the information systems needs of Presbyterian Senior Living and Diakon as well as other healthcare and community service organizations. During 2012 and 2011, the Corporation paid Prelude approximately $105,240 and $91,320, respectively, for information services provided by Prelude, of which $2,988 and $2,697 is included in accounts payable as of December 31, 2012 and 2011, respectively.

(5) Restricted Deposits and Funded Reserves

The Corporation is required by the Maryland Department of Aging to maintain and fund an operating reserve based on the Corporation's operating expenses for the most recent fiscal year, excluding depreciation and amortization. The Department of Aging required the Corporation to build the level of this operating reserve over a period not to exceed ten years beginning in 1997. Annual contributions to the operating reserve equaling at least 15% of the calculated reserve amount are required. For the year ended December 31, 2011 the fund balance was $1,545,726, representing cumulative contributions and earnings in satisfaction of the minimum operating reserve amount. No additional contributions are anticipated to be made during 2012 based on the following computation:

Total 2011 operating expenses:	$	11,727,038
Less: Depreciation		(1,680,408)
Amortization		(16,228)
Total expenses subject to operating reserve computation	(A)	10,030,402
Operating reserve requirement – 15% of (A)		1,504,560
Operating reserve fund, December 31, 2012		(1,567,312)
Contributions required for year ended December 31, 2013	$	(62,752)

(6) Assets Whose Use is Limited

At December 31 assets whose use is limited consist of the following:

		2012	2011
Designated for renovation and charity care	$	729,861	655,335
Other reserves required by financing arrangement		269,427	193,870
Assets whose use is limited	$	999,288	849,205

The Corporation's Board of Directors has designated certain funds toward the purpose of acquiring or renovating property and equipment and for providing charity care.

(7) Commitments and Contingencies

The Corporation is involved in legal proceedings arising from its activities in the health care industry. Although it is not possible to presently determine the outcome of these matters, management believes the aggregate liability, if any, resulting from such proceedings will not have a material adverse effect on the Corporation's assets, liabilities, net assets, operations, or cash flows.

(8) Property and Equipment

A summary of property and equipment and accumulated depreciation at December 31 is as follows:

	2012		2011	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
Land	$ 14,800,000	—	14,800,000	—
Land improvements	2,964,909	1,689,839	2,959,652	1,562,367
Buildings and improvements	34,646,736	21,530,184	34,516,176	20,251,005
Departmental equipment, furniture and fixtures	2,291,739	2,028,691	2,277,993	1,962,269
Vehicles	263,493	248,651	263,493	240,387
Construction-in-progress	1,482,730	—	704,907	—
	$ 56,449,607	25,497,365	55,522,221	24,016,028
Net book value		$ 30,952,242		$ 31,506,193

Land consists of 483 acres, of which 60 acres are utilized for the facility. The remaining land is leased to independent parties and may be available for future expansion. Commitments for future construction are approximately $117,300 and $0 as of December 31, 2012 and 2011, respectively.

During 2012, management decided to sell the rental properties that are located within the community. Therefore, the current value of these units of $97,809 has been moved to assets held for sale.

During 2012, it was determined that a planned project was not moving forward and $451,714 of assets was charged to loss on abandoned project.

(9) Bonds payable

Bonds payable as of December 31 consisted of the following:

	2012	2011
Maryland Health and Higher Educational Facilities Authority Revenue Bonds Series 1999A, tax exempt variable rate debenture bonds, principal maturities in varying amounts from 2012 to 2029, interest adjusted weekly, 0.12% and 0.13% at December 31, 2012 and 2011, respectively, collateralized by letter of credit	$ 3,225,000	3,340,000
Maryland Health and Higher Educational Facilities Authority Revenue Bonds Series 1999B, taxable variable rate debenture bonds, principal maturities in varying amounts from 2001 to 2029, interest adjusted weekly, 0.18% and 0.21% at December 31, 2012 and 2011 respectively, collateralized by letter of credit	12,995,000	13,380,000
Total bonds payable	$ 16,220,000	16,720,000

Under the terms of the Corporation's 1999 Maryland Health and Higher Educational Facility Authority Revenue bond indenture, the Corporation is required to maintain certain deposits with a trustee. These deposits are included in assets whose use is limited. The indenture also places limits on the incurrence of additional borrowings and requires the Corporation to satisfy certain measures of financial performance as long as the bonds are outstanding. These covenants were met as of December 31, 2012 and 2011.

Maturities for the five years subsequent to December 31, 2012 and thereafter are as follows:

Years ended December 31,	
2013	$ 535,000
2014	570,000
2015	610,000
2016	650,000
2017	695,000
Thereafter	13,160,000
	$ 16,220,000

(9) Bonds payable (continued)

The Corporation has an outstanding letter of credit at December 31, 2012 as required by the bonds. This letter of credit requires the Corporation to pay an annual fee approximating 1.55% of the principal balance of bonds outstanding. This letter of credit expires March 31, 2014 and is collateralized by property and equipment and gross revenues of the Corporation. As described in Note 4, the Obligated Group, which consists of several subsidiaries of Presbyterian Senior Living, has guaranteed full payment to the extent collateral is insufficient to satisfy the outstanding debt of the Corporation.

(10) Leases

The Corporation is obligated under capital leases for computer equipment that will expire in 2015. At December 31, 2012 and 2011, the gross amount of the equipment and related accumulated amortization recorded under capital leases was as follows:

	2012	2011
Computer equipment	$ 35,873	—
Accumulated amortization	(18,701)	—
	$ 17,172	—

A schedule of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of December 31, 2012 follows:

2013	$ 7,944
2014	7,944
2015	1,986
	17,874
Amounts representing interest	(535)
Present value of minimum lease payments	$ 17,339

Amortization expense for the assets held under capital leases was included in depreciation expense in the consolidated statements of operations and changes in net assets (liabilities).

(10) Leases (continued)

The Corporation leases certain equipment under operating leases, which expire at various dates through 2015. The future minimum lease payments under these operating leases are as follows:

2013	$ 28,916
2014	9,363
2015	1,561
	$ 39,840

Rental expense under operating leases was $47,697 and $42,247 for the years ended December 31, 2012 and 2011, respectively.

(11) Annuities

The Corporation has a gift annuity program. In return for their gifts, donors are paid a fixed annuity amount during the lifetime of the donor and/or the donor's beneficiary, which creates a liability of the Corporation. Total annuities payable was $30,969 and $32,635 at December 31, 2012 and 2011, respectively. The Corporation uses published mortality-rate tables adopted by the United States Internal Revenue Service and an assumed discount rate of approximately four percent to determine the present value of the actuarially determined liability. The Corporation has assets included in investments of $139,000 as of December 31, 2012 and 2011 to satisfy annuities.

(12) Retirement Plan

The Corporation participates in the defined-contribution retirement plan of Presbyterian Senior Living. This plan covers all employees that have completed one year of service and have reached the age of 21. Vesting occurs after three years of service. Contributions to the plan are at the discretion of the Board of Trustees of Presbyterian Senior Living, and employees have the ability to direct how their contributions are invested. For the years ended December 31, 2012 and 2011, retirement plan expense totaled approximately $89,100 and $112,100, respectively.

(13) Medical Malpractice Claims Coverage

The Corporation maintains professional liability coverage on a claims-made basis through a commercial insurance carrier. Other than for premiums paid under this policy, no provision has been made for estimated losses. Management believes no incidents have occurred or will be asserted that will exceed the Corporation's insurance coverages or will have a material adverse effect on the consolidated financial statements.

(continued)

(14) Temporarily Restricted Net Assets

Temporarily restricted net assets as of December 31 are available for the following purposes:

	2012	2011
Endowment:		
Benevolent Care	$ 158,772	144,455
Scholarships	854	5,471
	159,626	149,926
Scholarships	5,531	5,222
Other	8,702	8,827
	$ 173,859	163,975

Net assets of $46,738 and $87,082 were released from restriction during 2012 and 2011, respectively, in satisfaction of the above restrictions.

(15) Permanently Restricted Net Assets

Permanently restricted net assets as of December 31 are restricted for:

	2012	2011
Benevolent Care	$ 326,253	326,253
Scholarship	41,851	41,851
	$ 368,104	368,104

(16) Endowment

The endowments consist of donor restricted funds established for a variety of purposes supporting the Corporation. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

(continued)

(16) **Endowment (continued)**

Interpretation of relevant law

The Board of Trustees of the Corporation has interpreted the relevant state law as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as unrestricted and temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by the relevant state law and donor imposed stipulations. Unless specifically defined, a donor-restricted endowment fund that is required by donor stipulation to accumulate or appropriate endowment funds, the Organization considers the following factors:

(1) The duration and preservation of the fund
(2) The purposes of the organization and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and appreciation of investments
(6) Other resources of the organization
(7) The investment policies of the organization

The following schedule represents the changes in endowment net assets for the year ended December 31, 2012:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 149,926	368,104	518,030
Investment return:			
Investment income	14,700	–	14,700
Appropriation of endowment assets for expenditures	(5,000)	–	(5,000)
Endowment net assets, end of year	$ 159,626	368,104	527,730

(16) Endowment (continued)

The following schedule represents the changes in endowment net assets for the year ended December 31, 2011:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 130,910	364,104	495,014
Investment return:			
Investment income	19,016	–	19,016
Contributions	–	4,000	4,000
Appropriation of endowment assets for expenditures	–	–	–
Endowment net assets, end of year	$ 149,926	368,104	518,030

Funds with Deficiencies

The fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the relevant state law requires the Corporation to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, these deficiencies are reported as unrestricted net assets. There were no such deficiencies reported at December 31, 2012 and 2011.

Return Objectives and Risk Parameters

The Corporation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Corporation must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a composite of public market indexes based on the mix of investments held, while assuming a moderate level of investment risk. The Corporation expects its endowment funds, over time, to provide an average rate of return of approximately the consumer price index plus the investment spending percentage plus one percent annually. Actual returns in any given year may vary from this amount.

(16) Endowment (continued)

Strategies Employed for Achieving Objectives

The Corporation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Corporation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Endowment Spending Policy and How the Investment Objectives Relate to the Spending Policy

The Corporation has a total return policy for calculating the amounts available for distribution each year. It is a percent of its endowment fund's average fair value over the prior three calendar year ends. This percentage was 3.0% and 4.0% for 2012 and 2011, respectively. Actual distributions are for specific projects approved by the Board of Directors. If the total return amount exceeds the actual earnings of the Endowment Funds in any one year, then the amount needed to fund such excess will first be taken from the accumulated excess earnings from prior years, then from the accumulated net capital gains of Endowment Funds and, conversely, any undistributed income after the allocation of the total return distribution is added back to the unrestricted or temporarily restricted fund balance. In establishing this policy, the Corporation considered the long-term expected return on its endowment. Accordingly, over the long term, the Corporation expects the current spending policy to allow its endowment to grow at an average of inflation plus one percent annually. For 2012 and 2011 an allocation of three percent and four percent, respectively, of the prior year's balance was used to calculate restricted funds available balance. This is consistent with the Corporation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

(17) Financial Instruments

(a) Fair Values of Financial Instruments

The following valuation techniques were used to measure the fair value of each class of financial instruments:

Money market funds, equity and fixed income securities: Fair value of money market funds, and equity and fixed income securities was based on quoted market prices for the identical security.

Long-term debt: Long-term debt is carried at cost in the consolidated statements of financial position for bonds payable and mortgages payable at December 31, 2012 and 2011. Fair value is based on quoted market prices for the same or similar issues. The total outstanding was $16,220,000 and $16,720,000 at December 31, 2012 and 2011, respectively, and its fair values at December 31, 2012 and 2011 approximates $16,465,750 and $15,789,970, respectively.

Carbis Walker LLP

(17) Financial Instruments (continued)

The Corporation has a number of other financial instruments, none of which are held for investment purposes. The Corporation estimates that the fair value of all financial instruments at December 31, 2012 and 2011 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying consolidated statements of financial position.

The standards for accounting for fair value measurements established a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under these standards are as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities

Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e. supported with little or no market activity).

An asset or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. There have been no changes in the methodologies used to measure fair value at December 31, 2012 or 2011.

For assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2012 are as follows:

Description		Total	Level 1	Level 2
Money market funds	$	299,623	299,623	–
Equity securities		2,728,164	2,728,164	–
Fixed income securities		788,813	788,813	–
Total investments		3,816,600	3,816,600	–

(17) Financial Instruments (continued)

For assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2011are as follows:

Description	Total	Level 1	Level 2
Money market funds	$ 219,632	219,632	–
Equity securities	2,294,021	2,294,021	–
Fixed income securities	771,278	771,278	–
Total investments	3,284,931	3,284,931	–

(b) *Financial Instruments with Off-Balance-Sheet Risk*

Financial instruments with off-balance-sheet risk to the Corporation consist of certain financial guarantees of its affiliates and letters of credit obtained from various financial institutions. The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instrument is represented by the contractual amount of those obligations.

(18) Other Matters

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which contemplates continuation of the Corporation as a going concern. As of December 31, 2012 and 2011, the Corporation carried unrestricted net liabilities balances of $23,973,071 and $24,172,006, respectively. The unrestricted net liabilities are reflective of the amount due to affiliated entity of $20,630,865 and $19,552,737.

As such, the continued operations of the Corporation are dependent on continued Presbyterian Senior Living financial support and subordination of its related party debt to operating requirements and external debt repayments. Presbyterian Senior Living has agreed that the related party debt shall be subordinated to principal and interest payments on the Corporation's long-term indebtedness.

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

Consolidated Financial Statements

December 31, 2013 and 2012

(With Independent Auditors' Report Thereon)

Carbis Walker LLP

Certified Public Accountants & Consultants

Members: Carbis Walker Group ▪ McGladrey Alliance ▪ AICPA Alliance for CPA Firms

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

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Certification of Chief Executive and Chief Financial Officers

We are responsible for the consolidated financial statements of Presbyterian Senior Living Services, Inc., as of December 31, 2013 and 2012, and attest that they are accurate, complete and fairly presented.

The accuracy and completeness of financial information depends on our systems, process, and most importantly our integrity. Our commitment to integrity is reflected in the code of conduct that the leadership of Presbyterian Senior Living has established as the standard for the entire organization. We believe that this commitment, our processes and internal controls produce financial information that can be trusted.

Consolidated financial statements report our financial position and results using numbers and prescribed rules. They also include a significant amount of information that is required by financial reporting standards. We believe these consolidated financial statements disclose information that is important to create a complete picture of our stewardship of financial resources.

Consolidated financial statements alone can never reflect the breadth and depth of our stewardship of this ministry. They do not report on our most significant assets, our employees and volunteers. They also do not reflect our most important stewardship role; our commitment to provide Christian understanding and compassion to those seniors entrusted to our care. We believe that we continue to successfully fulfill the financial and non-financial aspects of our mission, extending a proud tradition of ministry that has served older persons in the name of Christ for the past 87 years.

Finally, we believe in openly and honestly sharing information. Please feel free to contact either of us if you have questions on any part of this report, or if we can be of further assistance in understanding Presbyterian Senior Living's mission.

Stephen E. Proctor
Chief Executive Officer
Presbyterian Senior Living

Jeffrey J. Davis
Chief Financial Officer
Presbyterian Senior Living

Independent Auditors' Report

The Board of Directors
Presbyterian Senior Living Services, Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Presbyterian Senior Living Services, Inc. (an affiliate of PHI, doing business as Presbyterian Senior Living) (the Corporation) which comprise the consolidated statements of financial position as of December 31, 2013 and 2012, and the related consolidated statements of operations and changes in net assets (liabilities), and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Presbyterian Senior Living Services, Inc. as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Going Concern

The accompanying financial statements have been prepared assuming that Presbyterian Senior Living Services, Inc. will continue as a going concern. As discussed in Note 18 to the financial statements, the Corporation has suffered recurring losses from operations; its total liabilities exceeds total assets; and the Corporation's continued operations are dependent upon the continued support of Presbyterian Senior Living. This raises substantial doubt about the Corporation's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this support.

Carbis Walker LLP
New Castle, Pennsylvania
March 28, 2014

Carbis Walker LLP

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

Consolidated Statements of Financial Position

December 31, 2013 and 2012

Assets		**2013**	**2012**
Cash and cash equivalents	$	192,704	797,130
Investments		1,600,000	1,250,000
Restricted deposits and funded reserves		1,595,715	1,567,312
Accounts receivable, net		812,298	1,155,571
Prepaid expenses and other current assets		259,723	184,205
Assets whose use is limited		1,075,286	999,288
Assets held for sale		49,504	97,809
Property and equipment (net of accumulated depreciation of $27,160,660 and $25,497,365, respectively)		30,835,317	30,952,242
Assets under capital leases (net of accumulated amortization of $15,644 and $18,701, respectively)		17,204	17,172
Deferred financing costs (net of accumulated amortization of $232,174 and $215,945, respectively)		232,496	248,725
Total assets	$	36,670,247	37,269,454

See accompanying notes to consolidated financial statements.

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

Consolidated Statements of Financial Position

December 31, 2013 and 2012

Liabilities and Net Liabilities	**2013**	**2012**
Accounts payable	$ 332,312	505,837
Accrued expenses	478,537	469,836
Resident deposits	70,100	63,300
Entrance fee payable	18,880,554	19,527,179
Deferred revenue – entrance fees	3,429,739	3,235,237
Annuities payable	29,391	30,969
Obligations under capital leases	17,485	17,339
Bonds payable	15,685,000	16,220,000
Due to affiliated entity	19,916,534	20,630,865
Total liabilities	58,839,652	60,700,562
Net (liabilities) assets:		
Unrestricted	(22,726,857)	(23,973,071)
Temporarily restricted	187,348	173,859
Permanently restricted	370,104	368,104
Total net liabilities	(22,169,405)	(23,431,108)
Total liabilities and net liabilities	$ 36,670,247	37,269,454

See accompanying notes to consolidated financial statements.

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

Consolidated Statements of Operations and Changes in Net Assets (Liabilities)

Years ended December 31, 2013 and 2012

		2013	2012
Operating revenues, gains, and other support:			
Resident services, including amortization of entrance fees of $795,984 and $670,278, respectively	$	12,629,940	12,286,744
Interest and dividend income		172,165	132,447
Realized gains on investments		146,074	128,438
Gain (loss) on disposal of property and equipment		495,819	(62,093)
Gifts and bequests		21,525	980
Net assets released from restrictions		4,981	46,738
Total operating revenues, gains, and other support		13,470,504	12,533,254
Expenses:			
Nursing services		2,500,559	2,468,632
Rehabilitation		425,829	533,464
Recreation and special services		507,614	453,076
Pharmacy		65,005	83,826
Social services		54,944	52,153
Physician services		35,235	28,350
Food services		2,053,068	1,761,468
Building operations and maintenance		2,351,878	2,053,797
Housekeeping		368,494	354,348
Laundry and linen		65,273	68,397
General and administrative		1,343,392	2,039,130
Employee benefits		597,170	618,953
Interest		305,018	319,048
Depreciation		1,680,715	1,694,395
Amortization		16,229	16,229
Total expenses		12,370,423	12,545,266
Excess (deficit) of operating revenues, gains and other support over expenses		1,100,081	(12,012)
Other changes:			
Unrealized gain on investments		146,133	210,947
Decrease in unrestricted net liabilities		1,246,214	198,935

See accompanying notes to consolidated financial statements.

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

Consolidated Statements of Operations and Changes in Net Assets (Liabilities)

Years ended December 31, 2013 and 2012

	2013	2012
Temporarily restricted net assets:		
Contributions, gifts and bequests	2,290	40,795
Interest and dividend income	16,180	15,827
Net assets released from restrictions	(4,981)	(46,738)
Change in temporarily restricted net assets	13,489	9,884
Permanently restricted net assets:		
Contributions	2,000	–
Change in permanently restricted net assets	2,000	–
Change in net (liabilities) assets	1,261,703	208,819
Net (liabilities) assets, beginning of year	(23,431,108)	(23,639,927)
Net (liabilities) assets, end of year	$ (22,169,405)	(23,431,108)

See accompanying notes to consolidated financial statements.

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

Consolidated Statements of Cash Flows

Years ended December 31, 2013 and 2012

		2013	2012
Cash flows from operating activities:			
Change in net liabilities	$	1,261,703	208,819
Adjustments to reconcile change in net liabilities to net cash provided by operating activities:			
Depreciation		1,680,715	1,694,395
Provision for bad debt		(95,656)	107,438
Proceeds from entrance fees and deposits		3,173,949	5,039,409
Amortization of entrance fees		(795,984)	(670,278)
Unrealized gain on investments		(146,133)	(210,947)
Realized gains on investments		(146,074)	(128,438)
Realized (gain) loss on disposal of property and equipment		(495,819)	62,093
Contributions restricted for long-term purposes		(2,000)	—
Amortization		16,229	16,229
Change in assets and liabilities:			
Accounts receivable		438,929	(401,327)
Prepaid expenses and other current assets		(75,518)	1,580
Accounts payable		(173,525)	(32,591)
Accrued expenses		8,701	87,354
Net cash provided by operating activities		4,649,517	5,773,736
Cash flows from investing activities:			
Acquisition of property and equipment		(2,124,698)	(1,317,518)
Net proceeds from sale of property		1,105,000	—
Purchases of investments		(1,574,058)	(2,730,944)
Proceeds from sale of investments		1,411,864	2,538,660
Net cash used in investing activities		(1,181,892)	(1,509,802)
Cash flows from financing activities:			
Refunds of entrance fees and deposits		(2,176,663)	(3,800,567)
Change in entrance fee payable		(646,625)	(821,870)
Principal payments and redemptions of bonds		(535,000)	(500,000)
Borrowings through capital lease obligations		9,951	22,896
Repayments on capital lease obligations		(9,805)	(5,557)
Contributions restricted for long-term purposes		2,000	—
Change in annuities payable		(1,578)	(1,666)
Change in due to affiliated entity		(714,331)	1,078,128
Net cash used in financing activities		(4,072,051)	(4,028,636)
Net (decrease) increase in cash and cash equivalents		(604,426)	235,298
Cash and cash equivalents, beginning of year		797,130	561,832
Cash and cash equivalents, end of year	$	192,704	797,130
Supplemental schedule of non-cash investing activities			
Decrease (increase) in assets held for sale through increase/decrease in property and equipment	$	48,305	(97,809)

See accompanying notes to consolidated financial statements.

(1) General Information

Presbyterian Senior Living Services, Inc. (the Corporation) is a not-for-profit corporation, which operates Glen Meadows Retirement Community, a Continuing Care Retirement Community (the Community) located in Glen Arm, Maryland, which provides housing, health care, and other related services to the elderly. The Corporation is also the parent company to a fully controlled affiliate Glen Meadows Retirement Community, Inc. (GMRCI). The Glen Meadows Foundation (the Foundation) was established for the exclusive benefit of the Community and certain assets held by the Corporation are designated for the Foundation. The consolidated financial statements of the Corporation include the financial position and operations of GMRCI and the Foundation. The Corporation and Foundation are governed by independent Boards of Directors, who are elected by the Board of Trustees of PHI, doing business as Presbyterian Senior Living, the Corporation's parent organization, the residents of Glen Meadows and the Presbytery of Baltimore.

The Community contains 112 independent living cottages, 95 independent living apartments, 36 assisted living units and a 31-bed skilled nursing facility. The facility covers approximately 60 acres of the 460-acre site owned by the Corporation.

The Corporation was formed on July 1, 1999 whereby all operations of Presbyterian Senior Services, Inc. (PSSI) were transferred to Presbyterian Senior Living Services, Inc. and Glen Meadows Retirement Community, Inc. PSSI's corporate existence was discontinued. Under this new structure, the property, plant and certain equipment of PSSI were transferred to Glen Meadows Retirement Community, Inc., and the operations, other assets, and all liabilities of PSSI were transferred to Presbyterian Senior Living Services, Inc. Presbyterian Senior Living Services, Inc. is a fully controlled subsidiary of Presbyterian Senior Living, located in Dillsburg, Pennsylvania.

(2) Summary of Significant Accounting Policies

(a) Basis of Consolidation

These consolidated financial statements have been prepared to focus on Presbyterian Senior Living Services, Inc. as a whole. All material intercompany transactions have been eliminated.

(b) Basis of Accounting

These consolidated financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the Corporation as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions.

(b) Basis of Accounting (continued)

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

(c) Income Taxes

The Corporation and its subsidiaries are tax exempt under Section 501(c)(3) of the Internal Revenue Code.

The Corporation follows the Financial Accounting Standards Board (FASB) accounting standard for accounting for uncertainty in income taxes. This standard clarifies the accounting for uncertainty in income taxes in a company's consolidated financial statements and prescribes a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold has been met. The standard also provides guidance on derecognition, classification, interest and penalties, and disclosure. Management has determined that this standard does not have a material impact on the consolidated financial statements.

The Corporation is part of a consolidated federal Exempt Organization Business Income Tax Return for which the years ended December 31, 2010 and 2011 and 2012 remain subject to examination by the Internal Revenue Service.

(d) Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(e) ***Cash and Cash Equivalents***

The Corporation considers all liquid investments with a maturity of three months or less when purchased to be cash equivalents, for the purposes of the consolidated statements of financial position and cash flows, except for those included in investments or assets whose use is limited. The Corporation's cash and cash equivalents are insured by the Federal Deposit Insurance Corporation (FDIC) for up to $250,000 per bank. At times during 2013 and 2012, the Corporation's cash balances may have exceeded the FDIC coverage. The Corporation has not experienced any loss in these accounts.

(f) ***Investments***

Investments in marketable equity securities and mutual funds with readily determinable fair values and all investments in debt securities are measured at fair value as determined by a national exchange in the consolidated statements of financial position. A decline in market value of any investment below cost that is deemed to be other than temporary results in a reduction in carrying amount to fair value. The impairment is charged to realized loss and a new cost basis for the investment is established. For the years ended December 31, 2013 and 2012, no amounts were charged to realized loss for this purpose as management believes the decline in value is temporary due to general economic conditions and not an other than temporary decline in value.

Investment income consisted of the following:

	2013	2012
Interest and dividends	$ 188,345	148,274
Realized gains on investments	146,074	128,438
Unrealized gains on investments	146,133	210,947
	$ 480,552	487,659

Investment expense of $15,454 and $9,381, for the years ended December 31, 2013 and 2012, respectively, have been included in general and administrative expenses.

(g) ***Accounts Receivable***

Accounts receivable are shown net of an estimated allowance for doubtful accounts, as follows:

		2013	2012
Total accounts receivable	$	914,917	1,386,977
Less: allowance for doubtful accounts		(102,619)	(231,406)
Net accounts receivable	$	812,298	1,155,571

Receivables are considered past due when payments have not been received by the Corporation within 60 days of their contractually stated due date.

The allowance for doubtful accounts is established based on management's assessment of the collectability of specific customer accounts and the aging of the accounts receivable. Losses are charged against the allowance for doubtful accounts when management believes the uncollectability of a receivable is likely.

(h) ***Restricted deposits and funded reserves***

Restricted deposits and funded reserves are measured at fair value in the consolidated statements of financial position and include the Maryland Department of Aging Operating Reserve.

(i) ***Assets Whose Use is Limited***

Assets whose use is limited are measured at fair value in the consolidated statements of financial position and include money deposited with a trustee under a debt agreement and assets restricted by donors for capital improvements and charity care.

(j) Property and Equipment

Property and equipment are stated at cost or, if donated, at fair market value on the date of donation. Depreciation is being provided on the straight-line method over the estimated useful lives of the assets. The Corporation's policy is to capitalize items in excess of $3,000 or for a group of items that are the same or similar in nature or function as a group totaling $3,000 or more.

Depreciable lives are determined as follows:

Land improvements	15-25 years
Buildings and improvements	10-40 years
Departmental equipment, furniture, and fixtures	10-25 years
Vehicles	5 years

(k) Deferred Financing Costs

The Corporation has deferred the costs incurred for obtaining the proceeds of the Corporation's bonds payable. These costs are being amortized over the life of the related bond using the straight-line method, which approximates the effective interest method. Amortization expense is expected to be $16,229 for each of the next five years.

(l) Resident Deposits

Entrance fees and waiting list deposits received from prospective residents prior to occupancy under Residence and Care Agreements are included in resident deposits in the consolidated statements of financial position. These deposits are transferred to deferred revenue upon occupancy of the related independent living units.

(m) Deferred Revenue – Entrance Fees

Residents entering the Community execute a Residence and Care Agreement, which requires payment of an entrance fee, based on the unit to be occupied. Ten percent of the entrance fee, as approved by the Maryland Department of Aging, is due upon execution of the agreement and the remainder is due upon occupancy. For the 100% refundable contracts, entrance fees are refundable in full upon termination of the agreement and subsequent reoccupancy of the unit. These entrance fees are not being amortized into revenue and are reflected as a liability on the consolidated statements of financial position. The Community also offers a 50% and a 75% nonrefundable contract. The non-refundable portion of the fees is amortized to income over the estimated remaining life expectancy of each resident. The portion of the guaranteed fee refundable upon reoccupancy is not being amortized and are reflected as a liability on the consolidated statements of financial position. The agreements provide for potential death or termination refunds of the non-refundable portion if reoccupancy occurs before the contractual amortization is completed in accordance with the terms of the agreements. The remaining amount of unamortized, nonrefundable entrance fees is recorded as revenue upon surrender of the independent living unit.

As of December 31, 2013 and 2012, the amount of entrance fees guaranteed to be refundable to residents under contractual refund provisions was $18,880,554 and $19,527,179, respectively.

(n) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Corporation has been limited by donors to a specific time period or purpose. The Corporation's temporarily restricted net assets consist principally of funds directed for special projects and resident welfare. Net assets released from restriction consist of expenses incurred satisfying those restricted purposes. Permanently restricted net assets have been restricted by donors to be maintained by the Corporation in perpetuity. Income from the permanently restricted net assets is primarily to be used for resident welfare.

(o) Donor Restrictions

The Corporation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose to which the donation is restricted is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of operations and changes in net assets (liabilities) as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying consolidated financial statements.

The Corporation reports non-cash gifts as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Corporation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

(p) Resident Services Revenue and Business Concentration

Resident services revenue is reported at the estimated net realizable amount to be received from patients and others including Medicare, Maryland Medicaid (Medicaid), and other third-party payors for services rendered. The Corporation derives a significant portion of its revenues from federal and state reimbursement programs. These reimbursements are subject to audit and retroactive adjustment in future periods.

Skilled nursing services provided to Medicare beneficiaries are paid under the terms of a prospective payment system ("PPS") at predetermined rates based on clinical, diagnostic, and other factors.

Nursing services provided to Medicaid beneficiaries are paid at prospectively determined rates per day. These rates vary according to a resident classification system that is based on clinical diagnosis and other factors, and the reimbursement methodology is subject to various limitations and adjustments. The Corporation's existence in Maryland exposes it to the risk of changes in Medicaid reimbursement in this state.

Revenues from Medicare and Medicaid represent approximately 16% and 18% of consolidated revenues for 2013 and 2012, respectively. Medicare and Medicaid receivables represent approximately 31% and 20% of consolidated accounts receivable at December 31, 2013 and 2012, respectively.

(q) Charity Care

The Corporation follows the accounting standards update from the Financial Accounting Standards Board (FASB) regarding charity care. This standard provides improved disclosures about charity care to prescribe a specific measurement basis of charity care. This guidance prescribed that the amount of charity care disclosed in the consolidated financial statements should be measured based on the providers direct and indirect costs of providing charity care services. The guidance also provided that if costs cannot be specifically attributed to services provided to charity care patients, that reasonable techniques could be used to estimate these costs, and that these techniques should be disclosed and that any funds received to offset or subsidize charity care services also should be disclosed.

The Corporation's policy is to provide services without charge, or at amounts less than its established rates to residents who meet the certain need based criteria. These criteria consider resident income and expenses, financial resources, State and Federal government requirements, and other sources of payment for services which may be provided. The Corporation also receives donations and income from permanently restricted trusts and investments designated to the needs of its residents under this policy.

Amounts the Corporation provided and received for resident financial support are as follows:

	2013	2012
Charity care provided at the estimated cost thereof, net of amounts received from residents and third party payors	$ 139,804	42,619
Additional benevolent care provided at amounts less than pre-established charges for private pay services	506,783	525,319
Giving and income designated for resident financial support	13,789	37,529

(r) ***Classification of Expenses***

		2013	2012
Program activities	$	11,027,031	10,506,136
General and administrative		1,332,327	2,027,632
Fundraising		11,065	11,498
	$	12,370,423	12,545,266

(s) ***Fundraising Expense***

Fundraising expenses incurred by the Corporation are included in general and administrative on the consolidated statements of operations and changes in net assets (liabilities).

(t) ***Advertising***

Advertising costs are expensed in the years incurred. Total advertising expense for the years ended December 31, 2013 and 2012, were $22,406 and $33,763, respectively.

(u) ***Contributed Services***

Contributed services are reflected in the accompanying consolidated financial statements at their estimated fair value at the date of receipt to the extent they create or enhance nonfinancial assets or require specialized skills which, if not provided by donation, would have to be purchased by the Corporation. No amounts have been included in the accompanying consolidated financial statements as amounts are not material.

(v) ***Performance Indicator***

The Corporation measures the performance of its operations using the consolidated statements of operations and changes in net assets (liabilities), which includes a performance indicator of operations labeled as "Excess (deficit) of operating revenues, gains, and other support over expenses." Changes in unrestricted net (liabilities) assets which are excluded from this measure are unrealized gains on investments.

(w) ***Consolidated Statements of Cash Flows***

Interest paid during the years ended December 31, 2013 and 2012 were $370,814 and $256,630, respectively.

(x) ***Subsequent Events***

The Corporation has adopted the standard relating to subsequent events. This standard provides guidance on accounting for and disclosure of events that occur after the consolidated statement of financial position date but before consolidated financial statements are issued or are available to be issued.

The Corporation has evaluated subsequent events through March 28, 2014, which is the date the consolidated financial statements were released.

(y) ***Reclassifications***

Certain reclassifications were made to the 2012 accompanying consolidated financial statements to conform to the 2013 presentation. These reclassifications had no impact on the changes in net assets (liabilities) or excess (deficit) of operating revenues, gains and other support over expenses as previously reported.

(continued)

(3) Investments

The cost and fair value of investments at December 31 are as follows:

	2013		2012	
	Fair Value	Cost	Fair Value	Cost
Money market funds	$ 322,683	322,683	299,623	299,623
Equity securities	3,063,524	2,701,913	2,728,164	2,543,723
Fixed income securities	884,794	888,498	788,813	767,463
Totals	$ 4,271,001	3,913,094	3,816,600	3,610,809
Less:				
Restricted deposits and funded reserves (note 5)	(1,595,715)		(1,567,312)	
Assets whose use is limited (note 6)	(1,075,286)		(999,288)	
Total investments	$ 1,600,000		1,250,000	

The Corporation holds its investments in the operating reserve fund. These assets are invested in a diversified portfolio of mutual funds. The Corporation had twenty mutual funds as of December 31, 2013. As of December 31, 2013, six mutual funds had a market value below cost. The Corporation had nineteen mutual funds as of December 31, 2012. As of December 31, 2012, three mutual funds had a market value below cost.

Five mutual funds had a market value that had been below cost for less than a year as of December 31, 2013. In total, its market value of the loss was less than four percent below cost for 2013. Two mutual funds had a market value that had been below cost for less than a year as of December 31, 2012. In total, its market value of the loss was less than two percent below cost for 2012.

One mutual fund had a market value that had been below cost for more than one year as of December 31, 2013. In total, its market value was less than three percent below cost for 2013. One mutual fund had a market value that had been below cost for more than one year as of December 31, 2012. In total, its market value was less than four percent below cost for 2012.

(3) Investments (continued)

A summary of investments with fair values below cost as of December 31, 2013 follows:

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Mututal funds	$ 940,643	(31,441)	124,634	(2,579)	1,065,277	(34,020)
Total temporarily impaired investments	$ 940,643	(31,441)	124,634	(2,579)	1,065,277	(34,020)

A summary of investments with fair values below cost as of December 31, 2012 follows:

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Mututal funds	$ 210,509	(3,097)	108,831	(3,642)	319,340	(6,739)
Total temporarily impaired investments	$ 210,509	(3,097)	108,831	(3,642)	319,340	(6,739)

(4) Related Party Transactions

The Corporation incurs a management fee payable to Presbyterian Senior Living, under a Development, Marketing, and Management Agreement (Management Agreement). Under the Management Agreement, Presbyterian Senior Living provides a full-time licensed administrator who is responsible for the facility's operation, under the direction of Presbyterian Senior Living, a full-time bookkeeper and a human resources employee. For 2013, the Corporation incurred fees under the agreement of $329,592. For 2012, the Corporation incurred fees under the agreement of $309,547. This fee is classified as general and administrative expenses on the consolidated statements of operations and changes in net assets (liabilities).

(4) Related Party Transactions (continued)

The Obligated Group, which consists of several subsidiaries of Presbyterian Senior Living, has guaranteed full payment to the extent collateral is insufficient to satisfy the outstanding debt of the Corporation as described in Note 9.

At December 31, 2013 and 2012 the amounts payable to Presbyterian Senior Living, were $19,916,534 and $20,630,865, respectively. Under the Management Agreement, this is included in due to affiliated entity.

Prelude Systems, Inc. (Prelude) is a joint venture between Presbyterian Senior Living and Diakon Lutheran Social Ministries (Diakon). Prelude is an information technology services organization with a wide range of programs designed to support the information systems needs of Presbyterian Senior Living and Diakon as well as other healthcare and community service organizations. During 2013 and 2012, the Corporation incurred expenses related to Prelude of approximately $90,432 and $105,240, respectively, for information services provided by Prelude, of which $3,229 and $2,988 is included in accounts payable as of December 31, 2013 and 2012, respectively.

(5) Restricted Deposits and Funded Reserves

The Corporation is required by the Maryland Department of Aging to maintain and fund an operating reserve based on the Corporation's operating expenses for the most recent fiscal year, excluding depreciation and amortization. The Department of Aging required the Corporation to build the level of this operating reserve over a period not to exceed ten years beginning in 1997. Annual contributions to the operating reserve equaling at least 15% of the calculated reserve amount are required. At December 31, 2013 the fund balance was $1,595,715, representing cumulative contributions and earnings in satisfaction of the minimum operating reserve amount. No additional contributions are anticipated to be made during 2014 based on the following computation:

Total 2012 operating expenses:	$	12,545,266
Less: Depreciation		(1,694,395)
Amortization		(16,229)
Total expenses subject to operating reserve computation	(A)	10,834,642
Operating reserve requirement – 15% of (A)		1,625,196
Operating reserve fund, December 31, 2013		(1,595,715)
Contributions required for year ended December 31, 2014	$	29,481

(6) Assets Whose Use is Limited

At December 31 assets whose use is limited consist of the following:

		2013	2012
Designated for renovation and charity care	$	787,771	729,861
Other reserves required by financing arrangement		287,515	269,427
Assets whose use is limited	$	1,075,286	999,288

The Corporation's Board of Directors has designated certain funds toward the purpose of acquiring or renovating property and equipment and for providing charity care.

(7) Commitments and Contingencies

The Corporation is involved in legal proceedings arising from its activities in the health care industry. Although it is not possible to presently determine the outcome of these matters, management believes the aggregate liability, if any, resulting from such proceedings will not have a material adverse effect on the Corporation's assets, liabilities, net assets, operations, or cash flows.

(8) Property and Equipment

A summary of property and equipment and accumulated depreciation at December 31 is as follows:

	2013		2012	
	Cost	**Accumulated depreciation**	**Cost**	**Accumulated depreciation**
Land	$ 14,387,070	—	14,800,000	—
Land improvements	2,964,909	1,825,962	2,964,909	1,689,839
Buildings and improvements	37,923,127	22,995,253	34,646,736	21,530,184
Departmental equipment, furniture and fixtures	2,320,963	2,090,118	2,291,739	2,028,691
Vehicles	255,993	249,327	263,493	248,651
Construction-in-progress	143,915	—	1,482,730	—
	$ 57,995,977	27,160,660	56,449,607	25,497,365
Net book value		$ 30,835,317		$ 30,952,242

Land consists of 483 acres, of which 60 acres are utilized for the facility. The remaining land is leased to independent parties and may be available for future expansion. Commitments for future construction are approximately $0 and $117,300 as of December 31, 2013 and 2012, respectively.

During 2012, management decided to sell the six rental properties that are located within the community. During 2013, four of the six units were sold for approximately $1,105,000, and a gain on the sale of $495,819 was recognized. The current value of the two remaining units of $49,504 is classified as assets held for sale on the consolidated statements of financial position.

(9) Bonds payable

Bonds payable as of December 31 consisted of the following:

		2013	2012
Maryland Health and Higher Educational Facilities Authority Revenue Bonds Series 1999A, tax exempt variable rate debenture bonds, principal maturities in varying amounts from 2012 to 2029, interest adjusted weekly, 0.04% and 0.12% at December 31, 2013 and 2012, respectively, collateralized by letter of credit	$	3,100,000	3,225,000
Maryland Health and Higher Educational Facilities Authority Revenue Bonds Series 1999B, taxable variable rate debenture bonds, principal maturities in varying amounts from 2001 to 2029, interest adjusted weekly, 0.13% and 0.18% at December 31, 2013 and 2012 respectively, collateralized by letter of credit		12,585,000	12,995,000
Total bonds payable	$	15,685,000	16,220,000

Under the terms of the Corporation's 1999 Maryland Health and Higher Educational Facility Authority Revenue bond indenture, the Corporation is required to maintain certain deposits with a trustee. These deposits are included in assets whose use is limited. The indenture also places limits on the incurrence of additional borrowings and requires the Corporation to satisfy certain measures of financial performance as long as the bonds are outstanding. These covenants were met as of December 31, 2013 and 2012.

Maturities for the five years subsequent to December 31, 2013 and thereafter are as follows:

Years ended December 31,		
2014	$	570,000
2015		610,000
2016		650,000
2017		695,000
2018		745,000
Thereafter		12,415,000
	$	15,685,000

(9) Bonds payable (continued)

The Corporation has an outstanding letter of credit at December 31, 2013 as required by the bonds. This letter of credit requires the Corporation to pay an annual fee approximating 1.55% of the principal balance of bonds outstanding. During 2014, this letter of credit which was set to expire March 31, 2014 was renewed and extended through March 2018. The letter of credit is collateralized by property and equipment and gross revenues of the Corporation. As described in Note 4, the Obligated Group, which consists of several subsidiaries of Presbyterian Senior Living, has guaranteed full payment to the extent collateral is insufficient to satisfy the outstanding debt of the Corporation.

(10) Leases

The Corporation is obligated under capital leases for computer equipment that will expire in 2016. At December 31, 2013 and 2012, the gross amount of the equipment and related accumulated amortization recorded under capital leases was as follows:

	2013	2012
Computer equipment	$ 32,848	35,873
Accumulated amortization	(15,644)	(18,701)
	$ 17,204	17,172

A schedule of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of December 31, 2013 follows:

2014	$ 11,396
2015	5,437
2016	1,071
	17,904
Amounts representing interest	(419)
Present value of minimum lease payments	$ 17,485

Amortization expense of $9,920 and $5,724 for the years ended December 31, 2013 and 2012, respectively, for the assets held under capital leases is included in depreciation expense in the consolidated statements of operations and changes in net assets (liabilities).

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(10) Leases (continued)

The Corporation leases certain equipment under operating leases, which expire at various dates through 2017. The future minimum lease payments under these operating leases are as follows:

2014	$ 30,963
2015	23,161
2016	21,600
2017	9,000
	$ 84,724

Rental expense under operating leases was $55,097 and $47,697 for the years ended December 31, 2013 and 2012, respectively.

(11) Annuities

The Corporation has a gift annuity program. In return for their gifts, donors are paid a fixed annuity amount during the lifetime of the donor and/or the donor's beneficiary, which creates a liability of the Corporation. Total annuities payable was $29,391 and $30,969 at December 31, 2013 and 2012, respectively. The Corporation uses published mortality-rate tables adopted by the United States Internal Revenue Service and an assumed discount rate of approximately four percent to determine the present value of the actuarially determined liability. The Corporation has assets included in investments of $139,000 as of December 31, 2013 and 2012 to satisfy annuities.

(12) Retirement Plan

The Corporation participates in the defined-contribution retirement plan of Presbyterian Senior Living. This plan covers all employees that have completed one year of service and have reached the age of 21. Vesting occurs after three years of service. Contributions to the plan are at the discretion of the Board of Trustees of Presbyterian Senior Living, and employees have the ability to direct how their contributions are invested. For the years ended December 31, 2013 and 2012, retirement plan expense totaled approximately $75,700 and $89,100, respectively.

(13) Medical Malpractice Claims Coverage

The Corporation maintains professional liability coverage on a claims-made basis through a commercial insurance carrier. Other than for premiums paid under this policy, no provision has been made for estimated losses. Management believes no incidents have occurred or will be asserted that will exceed the Corporation's insurance coverage's or will have a material adverse effect on the consolidated financial statements.

(14) Temporarily Restricted Net Assets

Temporarily restricted net assets as of December 31 are available for the following purposes:

Endowment:		2013	2012
Benevolent Care	$	173,525	158,772
Scholarships		2,831	6,385
		176,356	165,157
Other		10,992	8,702
	$	187,348	173,859

Net assets of $4,981 and $46,738 were released from restriction during 2013 and 2012, respectively, in satisfaction of the above restrictions.

(15) Permanently Restricted Net Assets

Permanently restricted net assets as of December 31 are restricted for:

		2013	2012
Benevolent Care	$	326,253	326,253
Scholarship		43,851	41,851
	$	370,104	368,104

(16) Endowment

The endowments consist of donor restricted funds established for a variety of purposes supporting the Corporation. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law

The Board of Trustees of the Corporation has interpreted the relevant state law as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as unrestricted and temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by the relevant state law and donor imposed stipulations. Unless specifically defined, a donor-restricted endowment fund that is required by donor stipulation to accumulate or appropriate endowment funds, the Organization considers the following factors:

(1) The duration and preservation of the fund
(2) The purposes of the organization and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and appreciation of investments
(6) Other resources of the organization
(7) The investment policies of the organization

(16) Endowment (continued)

The following schedule represents the changes in endowment net assets for the year ended December 31, 2013.

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 165,157	368,104	533,261
Investment return:			
Investment income	16,180	–	16,180
Contributions	–	2,000	2,000
Appropriation of endowment assets for expenditures	(4,981)	–	(4,981)
Endowment net assets, end of year	$ 176,356	370,104	546,460

The following schedule represents the changes in endowment net assets for the year ended December 31, 2012.

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 155,148	368,104	523,252
Investment return:			
Investment income	15,827	–	15,827
Appropriation of endowment assets for expenditures	(5,818)	–	(5,818)
Endowment net assets, end of year	$ 165,157	368,104	533,261

(16) Endowment (continued)

Funds with Deficiencies

The fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the relevant state law requires the Corporation to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, these deficiencies are reported as unrestricted net assets. There were no such deficiencies reported at December 31, 2013 and 2012.

Return Objectives and Risk Parameters

The Corporation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Corporation must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a composite of public market indexes based on the mix of investments held, while assuming a moderate level of investment risk. The Corporation expects its endowment funds, over time, to provide an average rate of return of approximately the consumer price index plus the investment spending percentage plus one percent annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

The Corporation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Corporation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

(16) Endowment (continued)

Endowment Spending Policy and How the Investment Objectives Relate to the Spending Policy

The Corporation has a total return policy for calculating the amounts available for distribution each year. It is a percent of its endowment fund's average fair value over the prior three calendar year ends. This percentage was 3.0% for both 2013 and 2012. Actual distributions are for specific projects approved by the Board of Directors. If the total return amount exceeds the actual earnings of the Endowment Funds in any one year, then the amount needed to fund such excess will first be taken from the accumulated excess earnings from prior years, then from the accumulated net capital gains of Endowment Funds and, conversely, any undistributed income after the allocation of the total return distribution is added back to the unrestricted or temporarily restricted fund balance. In establishing this policy, the Corporation considered the long-term expected return on its endowment. Accordingly, over the long term, the Corporation expects the current spending policy to allow its endowment to grow at an average of inflation plus one percent annually. For both 2013 and 2012 an allocation of three percent of the prior year's balance was used to calculate restricted funds available balance. This is consistent with the Corporation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

(17) Financial Instruments

(a) Fair Values of Financial Instruments

The following valuation techniques were used to measure the fair value of each class of financial instruments:

Money market funds, equity and fixed income securities: Fair value of money market funds, and equity and fixed income securities was based on quoted market prices for the identical security.

Long-term debt: Long-term debt is carried at cost in the consolidated statements of financial position for bonds payable and mortgages payable at December 31, 2013 and 2012. Fair value is based on quoted market prices for the same or similar issues. The total outstanding was $15,685,000 and $16,220,000 at December 31, 2013 and 2012, respectively, and its fair values at December 31, 2013 and 2012 approximates $15,895,045 and $16,465,750, respectively.

(17) Financial Instruments (continued)

The Corporation has a number of other financial instruments, none of which are held for investment purposes. The Corporation estimates that the fair value of all financial instruments at December 31, 2013 and 2012 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying consolidated statements of financial position.

The standards for accounting for fair value measurements established a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under these standards are as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities

Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e. supported with little or no market activity).

An asset or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. There have been no changes in the methodologies used to measure fair value at December 31, 2013 or 2012.

For assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2013 are as follows:

Description	Total	Level 1
Money market funds	$ 322,683	322,683
Equity securities	3,063,524	3,063,524
Fixed income securities	884,794	884,794
Total investments	4,271,001	4,271,001

(17) Financial Instruments (continued)

For assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2012 are as follows:

Description		Total	Level 1
Money market funds	$	299,623	299,623
Equity securities		2,728,164	2,728,164
Fixed income securities		788,813	788,813
Total investments		3,816,600	3,816,600

(b) Financial Instruments with Off-Balance-Sheet Risk

Financial instruments with off-balance-sheet risk to the Corporation consist of certain financial guarantees of its affiliates and letters of credit obtained from various financial institutions. The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instrument is represented by the contractual amount of those obligations.

(18) Other Matters

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which contemplates continuation of the Corporation as a going concern. As of December 31, 2013 and 2012, the Corporation carried unrestricted net liabilities of $22,726,857 and $23,973,071, respectively. The unrestricted net liabilities are reflective of the amount due to affiliated entity of $19,916,534 and $20,630,865.

As such, the continued operations of the Corporation are dependent on continued Presbyterian Senior Living financial support and subordination of its related party debt to operating requirements and external debt repayments. Presbyterian Senior Living has agreed that the related party debt shall be subordinated to principal and interest payments on the Corporation's long-term indebtedness.

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

Consolidated Financial Statements

December 31, 2014 and 2013

(With Independent Auditor's Report Thereon)

Arnett Carbis Toothman llp
CPAs & Advisors

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

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Certification of Chief Executive and Chief Financial Officers

We are responsible for the consolidated financial statements of Presbyterian Senior Living Services, Inc., as of December 31, 2014 and 2013, and attest that they are accurate, complete and fairly presented.

The accuracy and completeness of financial information depends on our systems, process, and most importantly our integrity. Our commitment to integrity is reflected in the code of conduct that the leadership of Presbyterian Senior Living has established as the standard for the entire organization. We believe that this commitment, our processes and internal controls produce financial information that can be trusted.

Consolidated financial statements report our financial position and results using numbers and prescribed rules. They also include a significant amount of information that is required by financial reporting standards. We believe these consolidated financial statements disclose information that is important to create a complete picture of our stewardship of financial resources.

Consolidated financial statements alone can never reflect the breadth and depth of our stewardship of this ministry. They do not report on our most significant assets, our employees and volunteers. They also do not reflect our most important stewardship role; our commitment to provide Christian understanding and compassion to those seniors entrusted to our care. We believe that we continue to successfully fulfill the financial and non-financial aspects of our mission, extending a proud tradition of ministry that has served older persons in the name of Christ for the past 88 years.

Finally, we believe in openly and honestly sharing information. Please feel free to contact either of us if you have questions on any part of this report, or if we can be of further assistance in understanding Presbyterian Senior Living's mission.

Stephen E. Proctor
Chief Executive Officer
Presbyterian Senior Living

Jeffrey J. Davis
Chief Financial Officer
Presbyterian Senior Living

Arnett
Carbis
Toothman llp
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Independent Auditor's Report

The Board of Directors
Presbyterian Senior Living Services, Inc.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Presbyterian Senior Living Services, Inc. (an affiliate of PHI, doing business as Presbyterian Senior Living) (the Corporation) which comprise the consolidated statements of financial position as of December 31, 2014 and 2013, and the related consolidated statements of operations and changes in net assets (liabilities), and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Presbyterian Senior Living Services, Inc. as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Going Concern

The accompanying consolidated financial statements have been prepared assuming that Presbyterian Senior Living Services, Inc. will continue as a going concern. As discussed in Note 18 to the consolidated financial statements, the Corporation has suffered recurring losses from operations; its total liabilities exceeds total assets; and the Corporation's continued operations are dependent upon the continued support of Presbyterian Senior Living. This raises substantial doubt about the Corporation's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this support.

Arnett Carbis Toothman LLP

Arnett Carbis Toothman LLP
New Castle, Pennsylvania
April 8, 2015

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

Consolidated Statements of Financial Position

December 31, 2014 and 2013

Assets		**2014**	**2013**
Cash and cash equivalents	$	243,536	192,704
Investments		1,600,000	1,600,000
Restricted deposits and funded reserves		1,654,009	1,595,715
Accounts receivable, net		716,562	812,298
Prepaid expenses and other current assets		269,125	259,723
Assets whose use is limited		1,074,860	1,075,286
Assets held for sale		39,724	49,504
Property and equipment (net of accumulated depreciation of $28,931,003 and $27,160,660, respectively)		30,170,288	30,835,317
Assets under capital leases (net of accumulated amortization of $29,173 and $15,644, respectively)		57,866	17,204
Deferred financing costs (net of accumulated amortization of $248,403 and $232,174, respectively)		216,267	232,496
Total assets	$	36,042,237	36,670,247

See accompanying notes to consolidated financial statements.

(Continued)

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

Consolidated Statements of Financial Position

December 31, 2014 and 2013

Liabilities and Net Liabilities		**2014**	**2013**
Accounts payable	$	1,065,902	332,312
Accrued expenses		423,782	478,537
Resident deposits		48,320	70,100
Entrance fee payable		17,288,651	18,880,554
Deferred revenue – entrance fees		3,695,005	3,429,739
Annuities payable		27,879	29,391
Obligations under capital leases		58,133	17,485
Bonds payable		15,115,000	15,685,000
Due to affiliated entity		21,025,499	19,916,534
Total liabilities		58,748,171	58,839,652
Net assets (liabilities):			
Unrestricted		(23,280,382)	(22,726,857)
Temporarily restricted		202,344	187,348
Permanently restricted		372,104	370,104
Total net liabilities		(22,705,934)	(22,169,405)
Total liabilities and net liabilities	$	36,042,237	36,670,247

See accompanying notes to consolidated financial statements.

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

Consolidated Statements of Operations and Changes in Net Assets (Liabilities)

Years ended December 31, 2014 and 2013

		2014	2013
Operating revenues, gains, and other support:			
Resident services, including amortization of entrance fees of $829,928 and $795,984, respectively	$	12,876,366	12,629,940
Interest and dividend income		163,533	172,165
Realized gains on investments		45,184	146,074
Gains on disposal of property and equipment		57,627	495,819
Gifts and bequests		21,144	21,525
Net assets released from restrictions		2,329	4,981
Total operating revenues, gains, and other support		13,166,183	13,470,504
Expenses:			
Nursing services		2,515,265	2,500,559
Rehabilitation		487,236	425,829
Recreation and special services		495,008	507,614
Pharmacy		70,713	65,005
Social services		65,285	54,944
Physician services		25,093	35,235
Food services		2,111,100	2,053,068
Building operations and maintenance		2,417,101	2,351,878
Housekeeping		418,803	368,494
Laundry and linen		53,986	65,273
General and administrative		2,210,407	1,343,392
Employee benefits		619,660	597,170
Interest		286,437	305,018
Depreciation		1,783,872	1,680,715
Amortization		16,229	16,229
Total expenses		13,576,195	12,370,423
(Deficit) excess of operating revenues, gains, and other support over expenses		(410,012)	1,100,081
Other changes:			
Unrealized (loss) gain on investments		(143,513)	146,133
Change in unrestricted net liabilities		(553,525)	1,246,214

See accompanying notes to consolidated financial statements.

(Continued)

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

Consolidated Statements of Operations and Changes in Net Assets (Liabilities)

Years ended December 31, 2014 and 2013

	2014	2013
Temporarily restricted net assets:		
Contributions, gifts and bequests	700	2,290
Interest and dividend income	16,625	16,180
Net assets released from restrictions	(2,329)	(4,981)
Change in temporarily restricted net assets	14,996	13,489
Permanently restricted net assets:		
Contributions	2,000	2,000
Change in permanently restricted net assets	2,000	2,000
Change in net (liabilities) assets	(536,529)	1,261,703
Net liabilities, beginning of year	(22,169,405)	(23,431,108)
Net liabilities, end of year	$ (22,705,934)	(22,169,405)

See accompanying notes to consolidated financial statements.

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

Consolidated Statements of Cash Flows

Years ended December 31, 2014 and 2013

		2014	2013
Cash flows from operating activities:			
Change in net (liabilities)	$	(536,529)	1,261,703
Adjustments to reconcile change in net (liabilities) to net cash provided by operating activities:			
Depreciation		1,783,872	1,680,715
Provision for bad debt		84,734	(95,656)
Proceeds from entrance fees and deposits		3,476,376	3,173,949
Amortization of entrance fees		(829,928)	(795,984)
Unrealized loss (gain) on investments		143,513	(146,133)
Realized gains on investments		(45,184)	(146,074)
Realized gains on disposal of property and equipment		(57,627)	(495,819)
Contributions restricted for long-term purposes		(2,000)	(2,000)
Amortization		16,229	16,229
Change in assets and liabilities:			
Accounts receivable		11,002	438,929
Prepaid expenses and other current assets		(9,402)	(75,518)
Accounts payable		733,590	(173,525)
Accrued expenses		(54,755)	8,701
Net cash provided by operating activities		4,713,891	4,649,517
Cash flows from investing activities:			
Acquisition of property and equipment		(1,259,839)	(2,124,698)
Net proceeds from sale of property and equipment		167,741	1,105,000
Purchases of investments		(1,610,187)	(1,574,058)
Proceeds from sale of investments		1,453,990	1,411,864
Net cash used in investing activities		(1,248,295)	(1,181,892)
Cash flows from financing activities:			
Refunds of entrance fees and deposits		(2,402,962)	(2,176,663)
Change in entrance fee payable		(1,591,903)	(646,625)
Principal payments and redemptions of bonds		(570,000)	(535,000)
Borrowings through capital lease obligations		54,192	9,951
Repayments on capital lease obligations		(13,544)	(9,805)
Contributions restricted for long-term purposes		2,000	2,000
Change in annuities payable		(1,512)	(1,578)
Change in due to affiliated entity		1,108,965	(714,331)
Net cash used in financing activities		(3,414,764)	(4,072,051)
Net increase (decrease) in cash and cash equivalents		50,832	(604,426)
Cash and cash equivalents, beginning of year		192,704	797,130
Cash and cash equivalents, end of year	$	243,536	192,704
Supplemental schedule of non-cash investing activities			
Decrease (increase) in assets held for sale through increase/decrease in property and equipment	$	9,780	(48,305)

See accompanying notes to consolidated financial statements.

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

Notes to Consolidated Financial Statements

December 31, 2014 and 2013

(1) General Information

Presbyterian Senior Living Services, Inc. (the Corporation) is a not-for-profit corporation, which operates Glen Meadows Retirement Community, a Continuing Care Retirement Community (the Community) located in Glen Arm, Maryland, which provides housing, health care, and other related services to the elderly. The Corporation is also the parent company to a fully controlled affiliate Glen Meadows Retirement Community, Inc. (GMRCI). The Glen Meadows Foundation (the Foundation) was established for the exclusive benefit of the Community and certain assets held by the Corporation are designated for the Foundation. The consolidated financial statements of the Corporation include the financial position and operations of GMRCI and the Foundation. The Corporation and Foundation are governed by independent Boards of Directors, who are elected by the Board of Trustees of PHI, doing business as Presbyterian Senior Living, the Corporation's parent organization, the residents of Glen Meadows and the Presbytery of Baltimore.

The Community contains 112 independent living cottages, 95 independent living apartments, 36 assisted living units and a 31-bed skilled nursing facility. The facility covers approximately 60 acres of the 483-acre site owned by the Corporation.

The Corporation was formed on July 1, 1999 whereby all operations of Presbyterian Senior Services, Inc. (PSSI) were transferred to Presbyterian Senior Living Services, Inc. and Glen Meadows Retirement Community, Inc. PSSI's corporate existence was discontinued. Under this new structure, the property, plant and certain equipment of PSSI were transferred to Glen Meadows Retirement Community, Inc., and the operations, other assets, and all liabilities of PSSI were transferred to Presbyterian Senior Living Services, Inc. Presbyterian Senior Living Services, Inc. is a fully controlled subsidiary of Presbyterian Senior Living, located in Dillsburg, Pennsylvania.

(2) Summary of Significant Accounting Policies

(a) Basis of Consolidation

These consolidated financial statements have been prepared to focus on Presbyterian Senior Living Services, Inc. as a whole. All material intercompany transactions have been eliminated.

(b) Basis of Accounting

These consolidated financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the Corporation as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions.

(continued)

(b) Basis of Accounting (continued)

Revenues are reported as increases in unrestricted net assets (liabilities) unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets (liabilities). Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets (liabilities) unless their use is restricted by explicit donor stipulation or by law.

(c) Income Taxes

The Corporation and its subsidiaries are not-for-profit organizations as described in Section 501(c)(3) of the Internal Revenue Code (Code) and has been recognized as tax exempt under Section 501(a) of the Code.

The Corporation follows the Financial Accounting Standards Board (FASB) accounting standard for accounting for uncertainty in income taxes. This standard clarifies the accounting for uncertainty in income taxes in a company's consolidated financial statements and prescribes a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold has been met. The standard also provides guidance on derecognition, classification, interest and penalties, and disclosure. Management has determined that this standard does not have a material impact on the consolidated financial statements.

The Corporation is part of a consolidated federal Exempt Organization Business Income Tax Return for which the years ended December 31, 2011, 2012 and 2013 remain subject to examination by the Internal Revenue Service.

(d) Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(e) Cash and Cash Equivalents

The Corporation considers all liquid investments with a maturity of three months or less when purchased to be cash equivalents, for the purposes of the consolidated statements of financial position and cash flows, except for those included in investments or assets whose use is limited. The Corporation's cash and cash equivalents are insured by the Federal Deposit Insurance Corporation (FDIC) for up to $250,000 per bank. At times during 2014 and 2013, the Corporation's cash balances may have exceeded the FDIC coverage. The Corporation has not experienced any loss in these accounts.

(f) Investments

Investments in marketable equity securities and mutual funds with readily determinable fair values and all investments in debt securities are measured at fair value as determined by a national exchange in the consolidated statements of financial position. A decline in market value of any investment below cost that is deemed to be other than temporary results in a reduction in carrying amount to fair value. The impairment is charged to realized loss and a new cost basis for the investment is established. For the years ended December 31, 2014 and 2013, no amounts were charged to realized loss for this purpose as management believes the decline in value is temporary due to general economic conditions and not an other than temporary decline in value.

Investment income consisted of the following:

		2014	2013
Interest and dividends	$	180,158	188,345
Realized gains on investments		45,184	146,074
Unrealized (loss) gain on investments		(143,513)	146,133
	$	81,829	480,552

Investment expenses of $14,934 and $15,454, for the years ended December 31, 2014 and 2013, respectively, have been included in general and administrative expenses.

(continued)

(g) Accounts Receivable

Accounts receivable are shown net of an estimated allowance for doubtful accounts, as follows:

	2014	2013
Total accounts receivable	$ 868,329	914,917
Less: allowance for doubtful accounts	(151,767)	(102,619)
Net accounts receivable	$ 716,562	812,298

Receivables are considered past due when payments have not been received by the Corporation within 60 days of their contractually stated due date.

The allowance for doubtful accounts is established based on management's assessment of the collectability of specific customer accounts and the aging of the accounts receivable. Losses are charged against the allowance for doubtful accounts when management believes the uncollectability of a receivable is likely.

During 2014, the Corporation migrated to a new accounting software system. Under the old system, receivables were calculated as past due based on calendar days. The new system calculates the amounts due based on calendar months. This change in methodology from calendar days to calendar months has caused a decrease in the amount reported in the allowance for doubtful accounts of $3,996.

(h) Restricted Deposits and Funded Reserves

Restricted deposits and funded reserves are measured at fair value in the consolidated statements of financial position and include the Maryland Department of Aging Operating Reserve.

(i) Assets Whose Use is Limited

Assets whose use is limited are measured at fair value in the consolidated statements of financial position and include money deposited with a trustee under a debt agreement and assets restricted by donors for capital improvements and charity care.

(continued)

(j) Property and Equipment

Property and equipment are stated at cost or, if donated, at fair market value on the date of donation. Depreciation is being provided on the straight-line method over the estimated useful lives of the assets. The Corporation's policy is to capitalize items in excess of $3,000 or for a group of items that are the same or similar in nature or function as a group totaling $3,000 or more.

Depreciable lives are determined as follows:

Land improvements	15-25 years
Buildings and improvements	10-40 years
Departmental equipment, furniture, and fixtures	10-25 years
Vehicles	5 years

(k) Deferred Financing Costs

The Corporation has deferred the costs incurred for obtaining the proceeds of the Corporation's bonds payable. These costs are being amortized over the life of the related bond using the straight-line method, which approximates the effective interest method. Amortization expense is expected to be $16,229 for each of the next five years.

(l) Resident Deposits

Entrance fees and waiting list deposits received from prospective residents prior to occupancy under Residence and Care Agreements are included in resident deposits in the consolidated statements of financial position. These deposits are transferred to deferred revenue upon occupancy of the related independent living units.

(continued)

(m) Deferred Revenue – Entrance Fees

Residents entering the Community execute a Residence and Care Agreement, which requires payment of an entrance fee, based on the unit to be occupied. Ten percent of the entrance fee, as approved by the Maryland Department of Aging, is due upon execution of the agreement and the remainder is due upon occupancy. For the 100% refundable contracts, entrance fees are refundable in full upon termination of the agreement and subsequent reoccupancy of the unit. These entrance fees are not being amortized into revenue and are reflected as a liability on the consolidated statements of financial position. The Community also offers a 50% and a 75% nonrefundable contract. The non-refundable portion of the fees is amortized to income over the estimated remaining life expectancy of each resident. The portion of the guaranteed fee refundable upon reoccupancy is not being amortized and is reflected as a liability on the consolidated statements of financial position. The agreements provide for potential death or termination refunds of the non-refundable portion if reoccupancy occurs before the contractual amortization is completed in accordance with the terms of the agreements. The remaining amount of unamortized, nonrefundable entrance fees is recorded as revenue upon surrender of the independent living unit.

As of December 31, 2014 and 2013, the amount of entrance fees guaranteed to be refundable to residents under contractual refund provisions was $17,288,651 and $18,880,554, respectively.

(n) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Corporation has been limited by donors to a specific time period or purpose. The Corporation's temporarily restricted net assets consist principally of funds directed for special projects and resident welfare. Net assets released from restriction consist of expenses incurred satisfying those restricted purposes. Permanently restricted net assets have been restricted by donors to be maintained by the Corporation in perpetuity. Income from the permanently restricted net assets is primarily to be used for resident welfare.

(o) Donor Restrictions

The Corporation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose to which the donation is restricted is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of operations and changes in net assets (liabilities) as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying consolidated financial statements.

The Corporation reports non-cash gifts as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Corporation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

(p) Resident Services Revenue and Business Concentration

Resident services revenue is reported at the estimated net realizable amount to be received from patients and others including Medicare, Maryland Medicaid (Medicaid), and other third-party payors for services rendered. The Corporation derives a significant portion of its revenues from federal and state reimbursement programs. These reimbursements are subject to audit and retroactive adjustment in future periods.

Skilled nursing services provided to Medicare beneficiaries are paid under the terms of a prospective payment system ("PPS") at predetermined rates based on clinical, diagnostic, and other factors.

Nursing services provided to Medicaid beneficiaries are paid at prospectively determined rates per day. These rates vary according to a resident classification system that is based on clinical diagnosis and other factors, and the reimbursement methodology is subject to various limitations and adjustments. The Corporation's existence in Maryland exposes it to the risk of changes in Medicaid reimbursement in this state.

Revenues from Medicare and Medicaid represent approximately 17% and 16% of consolidated revenues for 2014 and 2013, respectively. Medicare and Medicaid receivables represent approximately 44% and 31% of consolidated accounts receivable at December 31, 2014 and 2013, respectively.

(q) *Charity Care*

The Corporation follows the FASB accounting standards update. This standard provides improved disclosures about charity care to prescribe a specific measurement basis of charity care. This guidance prescribed that the amount of charity care disclosed in the consolidated financial statements should be measured based on the providers direct and indirect costs of providing charity care services. The guidance also provided that if costs cannot be specifically attributed to services provided to charity care patients, that reasonable techniques could be used to estimate these costs, and that these techniques should be disclosed and that any funds received to offset or subsidize charity care services also should be disclosed.

The Corporation's policy is to provide services without charge, or at amounts less than its established rates to residents who meet the certain need based criteria. These criteria consider resident income and expenses, financial resources, State and Federal government requirements, and other sources of payment for services which may be provided. The Corporation also receives donations and income from permanently restricted trusts and investments designated to the needs of its residents under this policy.

Amounts the Corporation provided and received for resident financial support are as follows:

	2014	2013
Charity care provided at the estimated cost thereof, net of amounts received from residents and third party payors	$ 281,757	139,804
Additional benevolent care provided at amounts less than pre-established charges for private pay services	760,329	506,783
Giving and income designated for resident financial support	12,905	13,789

(r) Classification of Expenses

		2014	2013
Program activities	$	11,365,788	11,027,031
General and administrative		2,160,879	1,332,327
Fundraising		49,528	11,065
	$	13,576,195	12,370,423

(s) Fundraising Expense

Fundraising expenses incurred by the Corporation are included in general and administrative on the consolidated statements of operations and changes in net assets (liabilities).

(t) Advertising

Advertising costs are expensed in the years incurred. Total advertising expense for the years ended December 31, 2014 and 2013 were $11,463 and $22,406, respectively.

(u) Contributed Services

Contributed services are reflected in the accompanying consolidated financial statements at their estimated fair value at the date of receipt to the extent they create or enhance nonfinancial assets or require specialized skills which, if not provided by donation, would have to be purchased by the Corporation. No amounts have been included in the accompanying consolidated financial statements as amounts are not material.

(v) Performance Indicator

The Corporation measures the performance of its operations using the consolidated statements of operations and changes in net assets (liabilities), which includes a performance indicator of operations labeled as "(Deficit) excess of operating revenues, gains, and other support over expenses." Changes in unrestricted net (liabilities) assets which are excluded from this measure are unrealized (loss) gain on investments.

(continued)

(w) Consolidated Statements of Cash Flows

Interest paid during the years ended December 31, 2014 and 2013 were $286,595 and $370,814, respectively.

(x) Subsequent Events

The Corporation has adopted the standard related to subsequent events. This standard provides guidance on accounting for and disclosure of events that occur after the consolidated statement of financial position date but before consolidated financial statements are issued or are available to be issued.

The Corporation has evaluated subsequent events through April 8, 2015, which is the date the consolidated financial statements were released.

(3) Investments

The cost and fair value of investments at December 31 are as follows:

	2014			2013	
		Fair Value	Cost	Fair Value	Cost
Money market funds	$	336,938	336,938	322,683	322,683
Equity securities		3,087,799	2,847,969	3,063,524	2,701,913
Fixed income securities		904,132	922,890	884,794	888,498
Totals	$	4,328,869	4,107,797	4,271,001	3,913,094
Less:					
Restricted deposits and funded reserves (note 5)		(1,654,009)		(1,595,715)	
Assets whose use is limited (note 6)		(1,074,860)		(1,075,286)	
Total investments	$	1,600,000		1,600,000	

The Corporation holds its investments in the operating reserve fund. These assets are invested in a diversified portfolio of mutual funds. The Corporation had twenty mutual funds as of December 31, 2014 and 2013. As of December 31, 2014, eight mutual funds had a market value below cost and as of December 31, 2013, six mutual funds had a market value below cost.

(3) Investments (continued)

Six mutual funds had a market value that had been below cost for less than a year as of December 31, 2014. In total, its market value of the loss was less than five percent below cost for 2014. Five mutual funds had a market value that had been below cost for less than a year as of December 31, 2013. In total, its market value of the loss was less than four percent below cost for 2013.

Two mutual funds had a market value that had been below cost for more than one year as of December 31, 2014. In total, its market value was less than ten percent below cost for 2014. One mutual fund had a market value that had been below cost for more than one year as of December 31, 2013. In total, its market value was less than three percent below cost for 2013.

A summary of investments with fair values below cost as of December 31, 2014 follows:

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mututal funds	$ 1,203,625	(60,418)	495,067	(52,752)	1,698,692	(113,170)
Total temporarily impaired investments	$ 1,203,625	(60,418)	495,067	(52,752)	1,698,692	(113,170)

A summary of investments with fair values below cost as of December 31, 2013 follows:

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mututal funds	$ 940,643	(31,441)	124,634	(2,579)	1,065,277	(34,020)
Total temporarily impaired investments	$ 940,643	(31,441)	124,634	(2,579)	1,065,277	(34,020)

(continued)

(4) Related Party Transactions

The Corporation incurs a management fee payable to Presbyterian Senior Living, under a Development, Marketing, and Management Agreement (Management Agreement). Under the Management Agreement, Presbyterian Senior Living provides a full-time licensed administrator who is responsible for the facility's operation, under the direction of Presbyterian Senior Living, a full-time bookkeeper and a human resources employee. For 2014, the Corporation incurred fees under the agreement of \$1,000,140. For 2013, the Corporation incurred fees under the agreement of \$329,592. This fee is classified as general and administrative expenses on the consolidated statements of operations and changes in net assets (liabilities).

The Obligated Group, which consists of several subsidiaries of Presbyterian Senior Living, has guaranteed full payment to the extent collateral is insufficient to satisfy the outstanding debt of the Corporation as described in Note 9.

At December 31, 2014 and 2013 the amounts payable to Presbyterian Senior Living, were \$21,025,499 and \$19,916,534, respectively. Under the Management Agreement, this is included in due to affiliated entity.

Prelude Systems, Inc. (Prelude) is a joint venture between Presbyterian Senior Living and Diakon Lutheran Social Ministries (Diakon). Prelude is an information technology services organization with a wide range of programs designed to support the information systems needs of Presbyterian Senior Living and Diakon as well as other health care and community service organizations. During 2014 and 2013, the Corporation incurred expenses related to Prelude of \$103,944 and \$90,432, respectively, for information services provided by Prelude, of which \$6,324 and \$3,229 is included in accounts payable as of December 31, 2014 and 2013, respectively.

(5) Restricted Deposits and Funded Reserves

The Corporation is required by the Maryland Department of Aging to maintain and fund an operating reserve based on the Corporation's operating expenses for the most recent fiscal year, excluding depreciation and amortization. The Department of Aging required the Corporation to build the level of this operating reserve over a period not to exceed ten years beginning in 1997. Annual contributions to the operating reserve equaling at least 15% of the calculated reserve amount are required. At December 31, 2014 the operating reserve fund balance was $1,654,009, representing cumulative contributions and earnings in satisfaction of the minimum operating reserve amount. No additional contributions are anticipated to be made during 2015 based on the following computation:

Less: Depreciation	$	(1,680,715)
Amortization		(16,229)
Total expenses subject to operating reserve computation	(A)	10,673,479
Operating reserve requirement – 15% of (A)		1,601,022
Operating reserve fund, December 31, 2014		1,654,009
Contributions required for year ended December 31, 2015	$	(52,987)

(6) Assets Whose Use is Limited

At December 31 assets whose use is limited consist of the following:

		2014	2013
Designated for renovation and charity care	$	766,892	787,771
Other reserves required by financing arrangement		307,968	287,515
Assets whose use is limited	$	1,074,860	1,075,286

The Corporation's Board of Directors has designated certain funds toward the purpose of acquiring or renovating property and equipment and for providing charity care.

(continued)

(7) Commitments and Contingencies

The Corporation is involved in legal proceedings arising from its activities in the health care industry. Although it is not possible to presently determine the outcome of these matters, management believes the aggregate liability, if any, resulting from such proceedings will not have a material adverse effect on the Corporation's assets, liabilities, net assets, operations, or cash flows.

(8) Property and Equipment

A summary of property and equipment and accumulated depreciation at December 31 is as follows:

	2014		2013	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
Land	$ 14,298,837	—	14,387,070	—
Land improvements	2,977,583	1,962,101	2,964,909	1,825,962
Buildings and improvements	38,709,251	24,553,897	37,923,127	22,995,253
Departmental equipment, furniture and fixtures	2,489,528	2,159,012	2,320,963	2,090,118
Vehicles	255,993	255,993	255,993	249,327
Construction-in-progress	370,099	—	143,915	—
	$ 59,101,291	28,931,003	57,995,977	27,160,660
Net book value		$ 30,170,288		$ 30,835,317

Land consists of 483 acres, of which 60 acres are utilized for the facility. The remaining land is leased to independent parties and may be available for future expansion.

In 2013, management decided to sell the six rental properties that are located within the community. During 2013, four of the six units were sold for approximately $1,105,000, and a gain on the sale of $495,819 was recognized. In 2014, another unit was sold for approximately $168,000 and a gain on the sale of $57,627 was recognized. The current value of the one remaining unit of $39,724 is classified as assets held for sale on the consolidated statements of financial position.

(continued)

(9) Bonds Payable

Bonds payable as of December 31 consist of the following:

	2014	2013
Maryland Health and Higher Educational Facilities Authority Revenue Bonds Series 1999A, tax exempt variable rate debenture bonds, principal maturities in varying amounts from 2012 to 2029, interest adjusted weekly, 0.03% and 0.04% at December 31, 2014 and 2013, respectively, collateralized by letter of credit	$ 2,970,000	3,100,000
Maryland Health and Higher Educational Facilities Authority Revenue Bonds Series 1999B, taxable variable rate debenture bonds, principal maturities in varying amounts from 2001 to 2029, interest adjusted weekly, 0.12% and 0.13% at December 31, 2014 and 2013 respectively, collateralized by letter of credit	12,145,000	12,585,000
Total bonds payable	$ 15,115,000	15,685,000

Under the terms of the Corporation's 1999 Maryland Health and Higher Educational Facility Authority Revenue bond indenture, the Corporation is required to maintain certain deposits with a trustee. These deposits are included in assets whose use is limited. The indenture also places limits on the incurrence of additional borrowings and requires the Corporation to satisfy certain measures of financial performance as long as the bonds are outstanding. These covenants were met as of December 31, 2014 and 2013.

Maturities for the five years subsequent to December 31, 2014 and thereafter are as follows:

Years ending December 31,	
2015	$ 610,000
2016	650,000
2017	695,000
2018	745,000
2019	795,000
Thereafter	11,620,000
	$ 15,115,000

(continued)

(9) Bonds Payable (continued)

The Corporation has outstanding two letters of credit at December 31, 2014 as required by the bonds. These letters of credit require the Corporation to pay an annual fee approximating 1.55% of the principal balance of bonds outstanding. The letters of credit expire March 31, 2018. The letters of credit are collateralized by property and equipment and gross revenues of the Corporation. As described in Note 4, the Obligated Group, which consists of several subsidiaries of Presbyterian Senior Living, has guaranteed full payment to the extent collateral is insufficient to satisfy the outstanding debt of the Corporation.

(10) Leases

The Corporation is obligated under capital leases for equipment and vehicles that will expire in 2018. At December 31, 2014 and 2013, the gross amount of the equipment and vehicles and related accumulated amortization recorded under capital leases was as follows:

		2014	2013
Equipment and vehicles	$	87,039	32,848
Accumulated amortization		(29,173)	(15,644)
	$	57,866	17,204

A schedule of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of December 31, 2014 follows:

2015	$	21,637
2016		17,271
2017		16,200
2018		5,400
		60,508
Amounts representing interest		(2,375)
Present value of minimum lease payments	$	58,133

Amortization expense of $13,529 and $9,920 for the years ended December 31, 2014 and 2013, respectively, for the assets held under capital leases is included in depreciation expense in the consolidated statements of operations and changes in net assets (liabilities).

(10) Leases (continued)

The Corporation leases certain equipment under operating leases, which expire at various dates through 2017. The future minimum lease payments under these operating leases are as follows:

2015	$ 18,049
2016	16,488
2017	5,496
	$ 40,033

Rental expense under operating leases was $56,217 and $55,097 for the years ended December 31, 2014 and 2013, respectively.

(11) Annuities

The Corporation has a gift annuity program. In return for their gifts, donors are paid a fixed annuity amount during the lifetime of the donor and/or the donor's beneficiary, which creates a liability of the Corporation. Total annuities payable was $27,879 and $29,391 at December 31, 2014 and 2013, respectively. The Corporation uses published mortality-rate tables adopted by the United States Internal Revenue Service and an assumed discount rate of approximately four percent to determine the present value of the actuarially determined liability. The Corporation has assets included in investments of $139,000 as of December 31, 2014 and 2013 to satisfy annuities.

(12) Retirement Plan

The Corporation participates in the defined-contribution retirement plan of Presbyterian Senior Living. This plan covers all employees that have completed one year of service and have reached the age of 21. Vesting occurs after three years of service. Contributions to the plan are at the discretion of the Board of Trustees of Presbyterian Senior Living, and employees have the ability to direct how their contributions are invested. For the years ended December 31, 2014 and 2013, retirement plan expense totaled approximately $77,400 and $75,700, respectively.

(continued)

(13) Medical Malpractice Claims Coverage

The Corporation maintains professional liability coverage on a claims-made basis through a commercial insurance carrier. Other than for premiums paid under this policy, no provision has been made for estimated losses. Management believes no incidents have occurred or will be asserted that will exceed the Corporation's insurance coverages or will have a material adverse effect on the consolidated financial statements.

(14) Temporarily Restricted Net Assets

Temporarily restricted net assets as of December 31 are available for the following purposes:

		2014	2013
Endowment:			
Benevolent Care	$	188,726	173,525
Scholarships		2,155	2,831
		190,881	176,356
Other		11,463	10,992
	$	202,344	187,348

Net assets of $2,329 and $4,981 were released from restriction during 2014 and 2013, respectively, in satisfaction of the above restrictions.

(15) Permanently Restricted Net Assets

Permanently restricted net assets are allocated for the following purposes at December 31:

		2014	2013
Benevolent Care	$	326,253	326,253
Scholarship		45,851	43,851
	$	372,104	370,104

(continued)

(16) Endowment

The endowments consist of donor restricted funds established for a variety of purposes supporting the Corporation. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Trustees of the Corporation has interpreted the relevant state law as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as unrestricted and temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by the relevant state law and donor imposed stipulations. Unless specifically defined, a donor-restricted endowment fund that is required by donor stipulation to accumulate or appropriate endowment funds, the Corporation considers the following factors:

(1) The duration and preservation of the fund
(2) The purposes of the organization and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and appreciation of investments
(6) Other resources of the organization
(7) The investment policies of the organization

(16) Endowment (continued)

The following schedule represents the changes in endowment net assets for the year ended December 31, 2014.

		Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$	176,356	370,104	546,460
Investment return: Investment income		16,625	–	16,625
Contributions		–	2,000	2,000
Appropriation of endowment assets for expenditures		(2,100)	–	(2,100)
Endowment net assets, end of year	$	190,881	372,104	562,985

The following schedule represents the changes in endowment net assets for the year ended December 31, 2013.

		Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$	165,157	368,104	533,261
Investment return: Investment income		16,180	–	16,180
Contributions		–	2,000	2,000
Appropriation of endowment assets for expenditures		(4,981)	–	(4,981)
Endowment net assets, end of year	$	176,356	370,104	546,460

(continued)

(16) Endowment (continued)

Funds with Deficiencies

The fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the relevant state law requires the Corporation to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, these deficiencies are reported as unrestricted net assets. There were no such deficiencies reported at December 31, 2014 and 2013.

Return Objectives and Risk Parameters

The Corporation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Corporation must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a composite of public market indexes based on the mix of investments held, while assuming a moderate level of investment risk. The Corporation expects its endowment funds, over time, to provide an average rate of return of approximately the consumer price index plus the investment spending percentage plus one percent annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

The Corporation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Corporation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

(continued)

(16) Endowment (continued)

Endowment Spending Policy and How the Investment Objectives Relate to the Spending Policy

The Corporation has a total return policy for calculating the amounts available for distribution each year. It is a percent of its endowment fund's average fair value over the prior three calendar year ends. This percentage was 3.0% for both 2014 and 2013. Actual distributions are for specific projects approved by the Board of Directors. If the total return amount exceeds the actual earnings of the Endowment Funds in any one year, then the amount needed to fund such excess will first be taken from the accumulated excess earnings from prior years, then from the accumulated net capital gains of Endowment Funds and, conversely, any undistributed income after the allocation of the total return distribution is added back to the unrestricted or temporarily restricted fund balance. In establishing this policy, the Corporation considered the long-term expected return on its endowment. Accordingly, over the long term, the Corporation expects the current spending policy to allow its endowment to grow at an average of inflation plus one percent annually. For both 2014 and 2013 an allocation of three percent of the prior year's balance was used to calculate restricted funds available balance. This is consistent with the Corporation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

(17) Financial Instruments

(a) *Fair Values of Financial Instruments*

The following valuation techniques were used to measure the fair value of each class of financial instruments:

Money market funds, equity and fixed income securities: Fair value of money market funds, and equity and fixed income securities was based on quoted market prices for the identical security.

Long-term debt: Long-term debt is carried at cost in the consolidated statements of financial position for bonds payable and mortgages payable at December 31, 2014 and 2013. Fair value is based on quoted market prices for the same or similar issues. The total outstanding was $15,115,000 and $15,685,000 at December 31, 2014 and 2013, respectively, and its fair values at December 31, 2014 and 2013 approximates $15,465,449 and $15,895,045, respectively.

(17) Financial Instruments (continued)

The Corporation has a number of other financial instruments, none of which are held for investment purposes. The Corporation estimates that the fair value of all financial instruments at December 31, 2014 and 2013 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying consolidated statements of financial position.

The standards for accounting for fair value measurements established a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under these standards are as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities

Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. There have been no changes in the methodologies used to measure fair value at December 31, 2014 or 2013.

For assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2014 are as follows:

Description	Total	Level 1
Money market funds	$ 336,938	336,938
Equity securities	3,087,799	3,087,799
Fixed income securities	904,132	904,132
Total investments	$ 4,328,869	4,328,869

(continued)

(17) Financial Instruments (continued)

For assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2013 are as follows:

Description		Total	Level 1
Money market funds	$	322,683	322,683
Equity securities		3,063,524	3,063,524
Fixed income securities		884,794	884,794
Total investments	$	4,271,001	4,271,001

(b) Financial Instruments with Off-Balance-Sheet Risk

Financial instruments with off-balance-sheet risk to the Corporation consist of certain financial guarantees of its affiliates and letters of credit obtained from various financial institutions. The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instrument is represented by the contractual amount of those obligations.

(18) Other Matters

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which contemplates continuation of the Corporation as a going concern. As of December 31, 2014 and 2013, the Corporation carried unrestricted net liabilities of $23,280,382 and $22,726,857, respectively. The unrestricted net liabilities are reflective of the amount due to an affiliated entity of $21,025,499 and $19,916,534.

As such, the continued operations of the Corporation are dependent on continued Presbyterian Senior Living financial support and subordination of its related party debt to operating requirements and external debt repayments. Presbyterian Senior Living has agreed that the related party debt shall be subordinated to principal and interest payments on the Corporation's long-term indebtedness.

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

Consolidated Financial Statements

December 31, 2015 and 2014

(With Independent Auditor's Report Thereon)

Arnett Carbis Toothman llp
CPAs & Advisors

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

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Certification of Chief Executive and Chief Financial Officers

We are responsible for the consolidated financial statements of Presbyterian Senior Living Services, Inc., as of December 31, 2015 and 2014, and attest that they are accurate, complete and fairly presented.

The accuracy and completeness of financial information depends on our systems, process, and most importantly our integrity. Our commitment to integrity is reflected in the code of conduct that the leadership of Presbyterian Senior Living has established as the standard for the entire organization. We believe that this commitment, our processes and internal controls produce financial information that can be trusted.

Consolidated financial statements report our financial position and results using numbers and prescribed rules. They also include a significant amount of information that is required by financial reporting standards. We believe these consolidated financial statements disclose information that is important to create a complete picture of our stewardship of financial resources.

Consolidated financial statements alone can never reflect the breadth and depth of our stewardship of this ministry. They do not report on our most significant assets, our employees and volunteers. They also do not reflect our most important stewardship role; our commitment to provide Christian understanding and compassion to those seniors entrusted to our care. We believe that we continue to successfully fulfill the financial and non-financial aspects of our mission, extending a proud tradition of ministry that has served older persons in the name of Christ for the past 89 years.

Finally, we believe in openly and honestly sharing information. Please feel free to contact either of us if you have questions on any part of this report, or if we can be of further assistance in understanding Presbyterian Senior Living's mission.

Stephen E. Proctor
Chief Executive Officer
Presbyterian Senior Living

Jeffrey J. Davis
Chief Financial Officer
Presbyterian Senior Living

Arnett
Carbis
Toothman llp
CPAs & Advisors

actcpas.com

Independent Auditor's Report

The Board of Directors
Presbyterian Senior Living Services, Inc.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Presbyterian Senior Living Services, Inc. (an affiliate of PHI, doing business as Presbyterian Senior Living) (the Corporation) which comprise the consolidated statements of financial position as of December 31, 2015 and 2014, and the related consolidated statements of operations and changes in net assets (liabilities), and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entities' preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entities' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Presbyterian Senior Living Services, Inc. as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Going Concern

The accompanying consolidated financial statements have been prepared assuming that Presbyterian Senior Living Services, Inc. will continue as a going concern. As discussed in Note 18 to the consolidated financial statements, the Corporation has suffered recurring losses from operations; its total liabilities exceeds total assets; and the Corporation's continued operations are dependent upon the continued support of Presbyterian Senior Living. This raises substantial doubt about the Corporation's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this support.

Arnett Carbis Toothman LLP

Arnett Carbis Toothman LLP
New Castle, Pennsylvania
March 31, 2016

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

Consolidated Statements of Financial Position

December 31, 2015 and 2014

Assets		**2015**	**2014**
Cash and cash equivalents	$	112,912	243,536
Investments		1,300,000	1,600,000
Restricted deposits and funded reserves		1,805,802	1,654,009
Accounts receivable, net		566,752	716,562
Prepaid expenses and other current assets		206,892	269,125
Assets whose use is limited		1,017,905	1,074,860
Pledges receivable		5,000	—
Assets held for sale		—	39,724
Property and equipment (net of accumulated depreciation of \$30,812,878 and \$28,931,003, respectively)		29,455,912	30,170,288
Assets under capital leases (net of accumulated amortization of \$49,881 and \$29,173, respectively)		37,158	57,866
Deferred financing costs (net of accumulated amortization of \$264,632 and \$248,403, respectively)		200,038	216,267
Total assets	$	34,708,371	36,042,237

See accompanying notes to consolidated financial statements.

(Continued)

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

Consolidated Statements of Financial Position

December 31, 2015 and 2014

Liabilities and Net Liabilities		**2015**	**2014**
Accounts payable	$	631,936	1,065,902
Accrued expenses		475,818	423,782
Resident deposits		24,000	48,320
Entrance fees payable		16,011,397	17,288,651
Deferred revenue – entrance fees		3,858,083	3,695,005
Annuities payable		51,989	27,879
Obligations under capital leases		37,721	58,133
Bonds payable		14,505,000	15,115,000
Due to affiliated entity		22,756,431	21,025,499
Total liabilities		58,352,375	58,748,171
Net assets (liabilities):			
Unrestricted		(24,235,365)	(23,280,382)
Temporarily restricted		217,257	202,344
Permanently restricted		374,104	372,104
Total net liabilities		(23,644,004)	(22,705,934)
Total liabilities and net liabilities	$	34,708,371	36,042,237

See accompanying notes to consolidated financial statements.

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

Consolidated Statements of Operations and Changes in Net Assets (Liabilities)

Years ended December 31, 2015 and 2014

		2015	2014
Operating revenues, gains, and other support:			
Resident services, including amortization of entrance fees of $841,134 and $829,928, respectively	$	13,082,574	12,876,366
Interest and dividend income		134,318	163,533
Realized (losses) gains on investments		(62,204)	45,184
Gains on sale of property and equipment		20,404	57,627
Gifts and bequests		51,527	21,144
Net assets released from restrictions		2,448	2,329
Total operating revenues, gains, and other support		13,229,067	13,166,183
Expenses:			
Nursing services		2,419,867	2,515,265
Rehabilitation		707,663	487,236
Recreation and special services		496,942	495,008
Pharmacy		84,736	70,713
Social services		59,512	65,285
Physician services		25,000	25,093
Food services		2,039,377	2,111,100
Building operations and maintenance		2,511,961	2,417,101
Housekeeping		407,414	418,803
Laundry and linen		50,909	53,986
General and administrative		2,227,247	2,210,407
Employee benefits		696,171	619,660
Interest		276,891	286,437
Depreciation		1,902,583	1,783,872
Amortization		16,229	16,229
Total expenses		13,922,502	13,576,195
Deficit of operating revenues, gains, and other support over expenses		(693,435)	(410,012)
Other changes:			
Unrealized losses on investments		(261,548)	(143,513)
Change in unrestricted net liabilities		(954,983)	(553,525)

See accompanying notes to consolidated financial statements.

(Continued)

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

Consolidated Statements of Operations and Changes in Net Assets (Liabilities)

Years ended December 31, 2015 and 2014

	2015	2014
Temporarily restricted net assets:		
Contributions, gifts and bequests	233	700
Interest and dividend income	17,128	16,625
Net assets released from restrictions	(2,448)	(2,329)
Change in temporarily restricted net assets	14,913	14,996
Permanently restricted net assets:		
Contributions	2,000	2,000
Change in permanently restricted net assets	2,000	2,000
Change in net liabilities	(938,070)	(536,529)
Net liabilities, beginning of year	(22,705,934)	(22,169,405)
Net liabilities, end of year	$ (23,644,004)	(22,705,934)

See accompanying notes to consolidated financial statements.

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

Consolidated Statements of Cash Flows

Years ended December 31, 2015 and 2014

		2015	2014
Cash flows from operating activities:			
Change in net liabilities	$	(938,070)	(536,529)
Adjustments to reconcile change in net liabilities to net cash provided by operating activities:			
Depreciation		1,902,583	1,783,872
Provision for bad debts		(16,374)	84,734
Proceeds from non-refundable entrance fees and deposits		4,140,044	3,476,376
Amortization of entrance fees		(841,134)	(829,928)
Unrealized losses on investments		261,548	143,513
Realized losses (gains) on investments		62,204	(45,184)
Realized gains on disposal of property and equipment		(20,404)	(57,627)
Contributions restricted for long-term purposes		(2,000)	(2,000)
Amortization		16,229	16,229
Change in assets and liabilities:			
Accounts receivable		166,184	11,002
Pledges receivable		(5,000)	—
Prepaid expenses and other current assets		62,233	(9,402)
Accounts payable		(433,966)	733,590
Accrued expenses		52,036	(54,755)
Net cash provided by operating activities		4,406,113	4,713,891
Cash flows from investing activities:			
Acquisition of property and equipment		(1,287,153)	(1,259,839)
Net proceeds from sale of property and equipment		179,782	167,741
Purchases of investments		(1,764,012)	(1,610,187)
Proceeds from sale of investments		1,645,422	1,453,990
Net cash used in investing activities		(1,225,961)	(1,248,295)
Cash flows from financing activities:			
Refunds of entrance fees and deposits		(3,160,152)	(2,402,962)
Change in entrance fee payable		(1,277,254)	(1,591,903)
Principal payments and redemptions of bonds		(610,000)	(570,000)
Borrowings through capital lease obligations		—	54,192
Repayments on capital lease obligations		(20,412)	(13,544)
Contributions restricted for long-term purposes		2,000	2,000
Change in annuities payable		24,110	(1,512)
Change in due to affiliated entity		1,730,932	1,108,965
Net cash used in financing activities		(3,310,776)	(3,414,764)
Net (decrease) increase in cash and cash equivalents		(130,624)	50,832
Cash and cash equivalents, beginning of year		243,536	192,704
Cash and cash equivalents, end of year	$	112,912	243,536
Supplemental schedule of non-cash investing activities			
Decrease in assets held for sale through increase in property and equipment	$	39,724	9,780

See accompanying notes to consolidated financial statements.

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

(1) General Information

Presbyterian Senior Living Services, Inc. (the Corporation) is a not-for-profit corporation, which operates Glen Meadows Retirement Community, a Continuing Care Retirement Community (the Community) located in Glen Arm, Maryland, which provides housing, health care, and other related services to the elderly. The Corporation is also the parent company to a fully controlled affiliate, Glen Meadows Retirement Community, Inc. (GMRCI). The Glen Meadows Foundation (the Foundation) was established for the exclusive benefit of the Community and certain assets held by the Corporation are designated for the Foundation. The consolidated financial statements of the Corporation include the financial position and operations of GMRCI and the Foundation. The Corporation and Foundation are governed by independent Boards of Directors, who are elected by the Board of Trustees of PHI, doing business as Presbyterian Senior Living, the Corporation's parent organization, the residents of Glen Meadows and the Presbytery of Baltimore.

The Community contains 112 independent living cottages, 89 independent living apartments, 36 assisted living units and a 31-bed skilled nursing facility. The Community covers approximately 60 acres of the 483-acre site owned by the Corporation.

The Corporation was formed on July 1, 1999, whereby all operations of Presbyterian Senior Services, Inc. (PSSI) were transferred to Presbyterian Senior Living Services, Inc. and Glen Meadows Retirement Community, Inc. PSSI's corporate existence was discontinued. Under this new structure, the property, plant and certain equipment of PSSI were transferred to Glen Meadows Retirement Community, Inc., and the operations, other assets, and all liabilities of PSSI were transferred to Presbyterian Senior Living Services, Inc. Presbyterian Senior Living Services, Inc. is a fully controlled subsidiary of Presbyterian Senior Living, located in Dillsburg, Pennsylvania.

(2) Summary of Significant Accounting Policies

(a) Basis of Consolidation

These consolidated financial statements have been prepared to focus on Presbyterian Senior Living Services, Inc. as a whole. All material intercompany transactions have been eliminated.

(b) Basis of Accounting

These consolidated financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the Corporation as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions.

(b) ***Basis of Accounting (continued)***

Revenues are reported as increases in unrestricted net assets (liabilities) unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets (liabilities). Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets (liabilities) unless their use is restricted by explicit donor stipulation or by law.

(c) ***Income Taxes***

The Corporation and its subsidiaries are not-for-profit organizations as described in Section 501(c)(3) of the Internal Revenue Code (Code) and has been recognized as tax exempt under Section 501(a) of the Code.

The Corporation follows the Financial Accounting Standards Board (FASB) accounting standard for accounting for uncertainty in income taxes. This standard clarifies the accounting for uncertainty in income taxes in a company's consolidated financial statements and prescribes a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold has been met. The standard also provides guidance on derecognition, classification, interest and penalties, and disclosure. Management has determined that this standard does not have a material impact on the consolidated financial statements.

The Corporation is part of a consolidated federal Exempt Organization Business Income Tax Return for which the years ended December 31, 2012, 2013 and 2014 remain subject to examination by the Internal Revenue Service.

(d) ***Use of Estimates***

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(continued)

(e) Cash and Cash Equivalents

The Corporation considers all liquid investments with a maturity of three months or less when purchased to be cash equivalents, for the purposes of the consolidated statements of financial position and cash flows, except for those included in investments or assets whose use is limited. The Corporation's cash and cash equivalents are insured by the Federal Deposit Insurance Corporation (FDIC) for up to $250,000 per bank. At times during 2015 and 2014, the Corporation's cash balances may have exceeded the FDIC coverage. The Corporation has not experienced any loss in these accounts.

(f) Investments

Investments in marketable equity securities and mutual funds with readily determinable fair values and all investments in debt securities are measured at fair value as determined by a national exchange in the consolidated statements of financial position. A decline in market value of any investment below cost that is deemed to be other than temporary results in a reduction in carrying amount to fair value. The impairment is charged to realized loss and a new cost basis for the investment is established. For the years ended December 31, 2015 and 2014, no amounts were charged to realized loss for this purpose as management believes the decline in value is temporary due to general economic conditions and not an other than temporary decline in value.

Investment income (loss) consisted of the following:

		2015	2014
Interest and dividends	$	151,446	180,158
Realized (losses) gains on investments		(62,204)	45,184
Unrealized losses on investments		(261,548)	(143,513)
	$	(172,306)	81,829

Investment expenses of $14,060 and $14,934, for the years ended December 31, 2015 and 2014, respectively, have been included in general and administrative expenses.

(g) Accounts Receivable

Accounts receivable are shown net of an estimated allowance for doubtful accounts, as follows:

		2015	2014
Total accounts receivable	$	647,053	868,329
Less: allowance for doubtful accounts		(80,301)	(151,767)
Net accounts receivable	$	566,752	716,562

Receivables are considered past due when payments have not been received by the Corporation within 60 days of their contractually stated due date.

The allowance for doubtful accounts is established based on management's assessment of the collectability of specific customer accounts and the aging of the accounts receivable. Losses are charged against the allowance for doubtful accounts when management believes the uncollectability of a receivable is likely.

(h) Restricted Deposits and Funded Reserves

Restricted deposits and funded reserves are measured at fair value in the consolidated statements of financial position and include the Maryland Department of Aging Operating Reserve.

(i) Assets Whose Use is Limited

Assets whose use is limited are measured at fair value in the consolidated statements of financial position and include money deposited with a trustee under a debt agreement and assets restricted by donors for capital improvements and charity care.

(j) Pledges Receivable

In 2015, a pledge was received for $5,000. Full payment of this gift is expected in early 2016. The Corporation recorded this pledge at full value since it is due within a year.

(continued)

(k) Property and Equipment

Property and equipment are stated at cost or, if donated, at fair market value on the date of donation. Depreciation is being provided on the straight-line method over the estimated useful lives of the assets. The Corporation's policy is to capitalize items in excess of $3,000 or for a group of items that are the same or similar in nature or function as a group totaling $3,000 or more.

Depreciable lives are determined as follows:

Land improvements	15-25 years
Buildings and improvements	10-40 years
Departmental equipment, furniture, and fixtures	10-25 years
Vehicles	5 years

(l) Deferred Financing Costs

The Corporation has deferred the costs incurred for obtaining the proceeds of the Corporation's bonds payable. These costs are being amortized over the life of the related bond using the straight-line method, which approximates the effective interest method. Amortization expense is expected to be $16,229 for each of the next five years.

(m) Resident Deposits

Entrance fees and waiting list deposits received from prospective residents prior to occupancy under Residence and Care Agreements are included in resident deposits in the consolidated statements of financial position. These deposits are transferred to deferred revenue upon occupancy of the related independent living units.

(continued)

(n) Deferred Revenue – Entrance Fees

Residents entering the Community execute a Residence and Care Agreement, which requires payment of an entrance fee, based on the unit to be occupied. Ten percent of the entrance fee, as approved by the Maryland Department of Aging, is due upon execution of the agreement and the remainder is due upon occupancy. For the 100% refundable contracts, entrance fees are refundable in full upon termination of the agreement and subsequent reoccupancy of the unit. These entrance fees are not being amortized into revenue and are reflected as a liability on the consolidated statements of financial position. The Community also offers a 50% and a 75% nonrefundable contract. The non-refundable portion of the fees is amortized to income over the estimated remaining life expectancy of each resident. The portion of the guaranteed fee refundable upon reoccupancy is not being amortized and is reflected as a liability on the consolidated statements of financial position. The agreements provide for potential death or termination refunds of the non-refundable portion if reoccupancy occurs before the contractual amortization is completed in accordance with the terms of the agreements. The remaining amount of unamortized, nonrefundable entrance fees is recorded as revenue upon surrender of the independent living unit.

As of December 31, 2015 and 2014, the amount of entrance fees guaranteed to be refundable to residents under contractual refund provisions was $16,011,397 and $17,288,651, respectively.

(o) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Corporation has been limited by donors to a specific time period or purpose. The Corporation's temporarily restricted net assets consist principally of funds directed for special projects and resident welfare. Net assets released from restriction consist of expenses incurred satisfying those restricted purposes. Permanently restricted net assets have been restricted by donors to be maintained by the Corporation in perpetuity. Income from the permanently restricted net assets is primarily to be used for resident welfare.

(p) ***Donor Restrictions***

The Corporation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose to which the donation is restricted is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of operations and changes in net assets (liabilities) as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying consolidated financial statements.

The Corporation reports non-cash gifts as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Corporation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

(q) ***Resident Services Revenue and Business Concentration***

Resident services revenue is reported at the estimated net realizable amount to be received from patients and others including Medicare, Maryland Medicaid (Medicaid), and other third-party payors for services rendered. The Corporation derives a significant portion of its revenues from federal and state reimbursement programs. These reimbursements are subject to audit and retroactive adjustment in future periods.

Skilled nursing services provided to Medicare beneficiaries are paid under the terms of a prospective payment system ("PPS") at predetermined rates based on clinical, diagnostic, and other factors.

Nursing services provided to Medicaid beneficiaries are paid at prospectively determined rates per day. These rates vary according to a resident classification system that is based on clinical diagnosis and other factors, and the reimbursement methodology is subject to various limitations and adjustments. The Corporation's existence in Maryland exposes it to the risk of changes in Medicaid reimbursement in this state.

Revenues from Medicare and Medicaid represent approximately 20% and 17% of consolidated revenues for 2015 and 2014, respectively. Medicare and Medicaid receivables represent approximately 39% and 44% of consolidated accounts receivable at December 31, 2015 and 2014, respectively.

(continued)

(r) Charity Care

The Corporation follows the Financial Accounting Standards Board (FASB) accounting standards update. This standard provides improved disclosures about charity care to prescribe a specific measurement basis of charity care. This guidance prescribed that the amount of charity care disclosed in the consolidated financial statements should be measured based on the providers direct and indirect costs of providing charity care services. The guidance also provided that if costs cannot be specifically attributed to services provided to charity care patients, that reasonable techniques could be used to estimate these costs, and that these techniques should be disclosed and that any funds received to offset or subsidize charity care services also should be disclosed.

The Corporation's policy is to provide services without charge, or at amounts less than its established rates, to residents who meet the certain need based criteria. These criteria consider resident income and expenses, financial resources, State and Federal government requirements, and other sources of payment for services which may be provided. The Corporation also receives donations and income from permanently restricted trusts and investments designated to the needs of its residents under this policy.

Amounts the Corporation provided and received for resident financial support are as follows:

	2015	2014
Charity care provided at the estimated cost thereof, net of amounts received from residents and third-party payors	$ 407,561	281,757
Additional benevolent care provided at amounts less than pre-established charges for private pay services	328,524	760,329
Giving and income designated for resident financial support	33,273	12,905

(s) ***Classification of Expenses***

Expenses incurred are classified as follows:

		2015	2014
Program activities	$	11,695,255	11,365,788
General and administrative		2,184,192	2,160,879
Fundraising		43,055	49,528
	$	13,922,502	13,576,195

(t) ***Fundraising Expenses***

Fundraising expenses incurred by the Corporation are included in general and administrative on the consolidated statements of operations and changes in net assets (liabilities).

(u) ***Advertising***

Advertising costs are expensed in the years incurred. Total advertising expense for the years ended December 31, 2015 and 2014 were $11,707 and $11,463, respectively.

(v) ***Contributed Services***

Contributed services are reflected in the accompanying consolidated financial statements at their estimated fair value at the date of receipt to the extent they create or enhance nonfinancial assets or require specialized skills which, if not provided by donation, would have to be purchased by the Corporation. No amounts have been included in the accompanying consolidated financial statements as amounts are not material.

(w) ***Performance Indicator***

The Corporation measures the performance of its operations using the consolidated statements of operations and changes in net assets (liabilities), which includes a performance indicator of operations labeled as "Deficit of operating revenues, gains, and other support over expenses." Changes in unrestricted net (liabilities) which are excluded from this measure are unrealized losses on investments.

(continued)

(x) ***Consolidated Statements of Cash Flows***

Interest paid during the years ended December 31, 2015 and 2014 were $276,571 and $286,595, respectively.

(y) ***Subsequent Events***

The Corporation has adopted the standard related to subsequent events. This standard provides guidance on accounting for and disclosure of events that occur after the consolidated statement of financial position date but before consolidated financial statements are issued or are available to be issued.

The Corporation has evaluated subsequent events through March 31, 2016, which is the date the consolidated financial statements were released.

(3) Investments

The cost and fair value of investments at December 31 are as follows:

	2015		2014	
	Fair Value	Cost	Fair Value	Cost
Money market funds	$ 359,807	359,807	336,938	336,938
Equity securities	3,174,500	3,165,855	3,087,799	2,847,969
Fixed income securities	589,400	616,615	904,132	922,890
Totals	$ 4,123,707	4,142,277	4,328,869	4,107,797
Less:				
Restricted deposits and funded reserves (Note 5)	(1,805,802)		(1,654,009)	
Assets whose use is limited (Note 6)	(1,017,905)		(1,074,860)	
Total investments	$ 1,300,000		1,600,000	

The Corporation holds its investments in the operating reserve fund. These assets are invested in a diversified portfolio of mutual funds. The Corporation had twenty mutual funds as of December 31, 2015 and 2014. As of December 31, 2015, twelve mutual funds had a market value below cost and as of December 31, 2014, eight mutual funds had a market value below cost.

(3) Investments (continued)

Eleven mutual funds had a market value that had been below cost for less than a year as of December 31, 2015. In total, their market value of the loss was less than nine percent below cost for 2015. Six mutual funds had a market value that had been below cost for less than a year as of December 31, 2014. In total, their market value of the loss was less than five percent below cost for 2014.

One mutual fund had a market value that had been below cost for more than one year as of December 31, 2015. In total, its market value was less than four percent below cost for 2015. Two mutual funds had a market value that had been below cost for more than one year as of December 31, 2014. In total, their market value was less than ten percent below cost for 2014.

A summary of investments with fair values below cost as of December 31, 2015 follows:

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mututal funds	$ 1,989,884	(195,240)	397,991	(14,867)	2,387,875	(210,107)
Total temporarily impaired investments	$ 1,989,884	(195,240)	397,991	(14,867)	2,387,875	(210,107)

A summary of investments with fair values below cost as of December 31, 2014 follows:

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mututal funds	$ 1,203,625	(60,418)	495,067	(52,752)	1,698,692	(113,170)
Total temporarily impaired investments	$ 1,203,625	(60,418)	495,067	(52,752)	1,698,692	(113,170)

(continued)

(4) Related Party Transactions

The Corporation incurs a management fee payable to Presbyterian Senior Living, under a Development, Marketing, and Management Agreement (Management Agreement). Under the Management Agreement, Presbyterian Senior Living provides a full-time licensed administrator who is responsible for the Community's operation, under the direction of Presbyterian Senior Living, a full-time bookkeeper and a human resources employee. For 2015, the Corporation incurred fees under the agreement of $1,175,220. For 2014, the Corporation incurred fees under the agreement of $1,000,140. This fee is classified as general and administrative expenses on the consolidated statements of operations and changes in net assets (liabilities).

The Obligated Group, which consists of several subsidiaries of Presbyterian Senior Living, has guaranteed full payment to the extent collateral is insufficient to satisfy the outstanding debt of the Corporation as described in Note 9.

At December 31, 2015 and 2014 the amounts payable to Presbyterian Senior Living were $22,756,431 and $21,025,499, respectively. Under the Management Agreement, this is included in due to affiliated entity on the consolidated statements of financial position.

Prelude Systems, Inc. (Prelude) is a joint venture between Presbyterian Senior Living and Diakon Lutheran Social Ministries (Diakon). Prelude is an information technology services organization with a wide range of programs designed to support the information systems needs of Presbyterian Senior Living and Diakon as well as other health care and community service organizations. During 2015 and 2014, the Corporation incurred expenses related to Prelude of $132,564 and $103,944, respectively, for information services provided by Prelude, of which $7,339 and $6,324 is included in accounts payable as of December 31, 2015 and 2014, respectively.

(continued)

(5) Restricted Deposits and Funded Reserves

The Corporation is required by the Maryland Department of Aging to maintain and fund an operating reserve based on the Corporation's operating expenses for the most recent fiscal year, excluding depreciation and amortization. The Department of Aging required the Corporation to build the level of this operating reserve over a period not to exceed ten years beginning in 1997. Annual contributions to the operating reserve equaling at least 15% of the calculated reserve amount are required. At December 31, 2015 the operating reserve fund balance was $1,805,802, representing cumulative contributions and earnings in satisfaction of the minimum operating reserve amount. No additional contributions are anticipated to be made during 2016 based on the following computation:

Total 2014 operating expenses:	$	13,576,195
Less: Depreciation		(1,783,872)
Amortization		(16,229)
Total expenses subject to operating reserve computation	(A)	11,776,094
Operating reserve requirement – 15% of (A)		1,766,414
Operating reserve fund, December 31, 2015		1,805,802
Contributions required for year ended December 31, 2016	$	(39,388)

(6) Assets Whose Use is Limited

At December 31 assets whose use is limited consist of the following:

		2015	2014
Designated for renovation and charity care	$	696,134	766,892
Other reserves required by financing arrangement		321,771	307,968
Assets whose use is limited	$	1,017,905	1,074,860

The Corporation's Board of Directors has designated certain funds toward the purpose of acquiring or renovating property and equipment and for providing charity care.

(continued)

(7) Commitments and Contingencies

The Corporation is involved in legal proceedings arising from its activities in the health care industry. Although it is not possible to presently determine the outcome of these matters, management believes the aggregate liability, if any, resulting from such proceedings will not have a material adverse effect on the Corporation's assets, liabilities, net assets, operations, or cash flows.

(8) Property and Equipment

A summary of property and equipment and accumulated depreciation at December 31 is as follows:

	2015		2014	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
Land	$ 14,182,370	—	14,298,837	—
Land improvements	3,016,607	2,100,209	2,977,583	1,962,101
Buildings and improvements	39,941,622	26,206,159	38,709,251	24,553,897
Departmental equipment, furniture and fixtures	2,640,996	2,250,517	2,489,528	2,159,012
Vehicles	255,993	255,993	255,993	255,993
Construction-in-progress	231,202	—	370,099	—
	$ 60,268,790	30,812,878	59,101,291	28,931,003
Net book value		$ 29,455,912		$ 30,170,288

Land consists of 483 acres, of which 60 acres are utilized for the Community. The remaining land is leased to independent parties and may be available for future expansion.

In 2013, management decided to sell the six rental properties that are located within the community. During 2013, four of the six units were sold. In 2014, another unit was sold for approximately $168,000 and a gain on the sale of $57,627 was recognized. In 2015, the final unit was sold for approximately $180,000 and a gain on the sale of $20,404 was recognized.

(9) Bonds Payable

Bonds payable as of December 31 consist of the following:

		2015	2014
Maryland Health and Higher Educational Facilities Authority Revenue Bonds Series 1999A, tax exempt variable rate debenture bonds, principal maturities in varying amounts from 2012 to 2029, interest adjusted weekly, 0.01% and 0.03% at December 31, 2015 and 2014, respectively, collateralized by letter of credit	$	2,835,000	2,970,000
Maryland Health and Higher Educational Facilities Authority Revenue Bonds Series 1999B, taxable variable rate debenture bonds, principal maturities in varying amounts from 2001 to 2029, interest adjusted weekly, 0.35% and 0.12% at December 31, 2015 and 2014 respectively, collateralized by letter of credit		11,670,000	12,145,000
Total bonds payable	$	14,505,000	15,115,000

Under the terms of the Corporation's 1999 Maryland Health and Higher Educational Facility Authority Revenue Bond indenture, the Corporation is required to maintain certain deposits with a trustee. These deposits are included in assets whose use is limited. The indenture also places limits on the incurrence of additional borrowings and requires the Corporation to satisfy certain measures of financial performance as long as the bonds are outstanding. These covenants were met as of December 31, 2015 and 2014.

Maturities for the five years subsequent to December 31, 2015 and thereafter are as follows:

Years ending December 31,		
2016	$	650,000
2017		695,000
2018		745,000
2019		795,000
2020		845,000
Thereafter		10,775,000
	$	14,505,000

(continued)

(9) Bonds Payable (continued)

The Corporation has outstanding two letters of credit at December 31, 2015 as required by the bonds. These letters of credit require the Corporation to pay an annual fee approximating 1.55% of the principal balance of bonds outstanding. The letters of credit expire March 31, 2018. The letters of credit are collateralized by property and equipment and gross revenues of the Corporation. As described in Note 4, the Obligated Group, which consists of several subsidiaries of Presbyterian Senior Living, has guaranteed full payment to the extent collateral is insufficient to satisfy the outstanding debt of the Corporation.

(10) Leases

The Corporation is obligated under capital leases for equipment and vehicles that will expire in 2018. At December 31, 2015 and 2014, the gross amount of the equipment and vehicles and related accumulated amortization recorded under capital leases was as follows:

	2015	2014
Equipment and vehicles	$ 87,039	87,039
Accumulated amortization	(49,881)	(29,173)
	$ 37,158	57,866

A schedule of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of December 31, 2015 follows:

2016	$ 17,271
2017	16,200
2018	5,400
	38,871
Amounts representing interest	(1,150)
Present value of minimum lease payments	$ 37,721

Amortization expense of $20,708 and $13,529 for the years ended December 31, 2015 and 2014, respectively, for the assets held under capital leases is included in depreciation expense in the consolidated statements of operations and changes in net assets (liabilities). Interest rates on the capital leases range from 2.5% to 2.6% for the year ended December 31, 2015 and 2014.

(10) Leases (continued)

The Corporation leases certain equipment under operating leases, which expire at various dates through 2017. The future minimum lease payments under these operating leases are as follows:

2016	$ 38,088
2017	14,496
	$ 52,584

Rental expense under operating leases was $52,988 and $56,217 for the years ended December 31, 2015 and 2014, respectively.

(11) Annuities

The Corporation has a gift annuity program. In return for their gifts, donors are paid a fixed annuity amount during the lifetime of the donor and/or the donor's beneficiary, which creates a liability of the Corporation. Total annuities payable was $51,989 and $27,879 at December 31, 2015 and 2014, respectively. The Corporation uses published mortality-rate tables adopted by the United States Internal Revenue Service and an assumed discount rate of approximately four percent to determine the present value of the actuarially determined liability. The Corporation has assets included in investments of approximately $167,000 and $139,000 as of December 31, 2015 and 2014, respectively, to satisfy annuities.

(12) Retirement Plan

The Corporation participates in the defined-contribution retirement plan of Presbyterian Senior Living. This plan covers all employees that have completed one year of service and have reached the age of 21. Vesting occurs after three years of service. Contributions to the plan are at the discretion of the Board of Trustees of Presbyterian Senior Living, and employees have the ability to direct how their contributions are invested. For the years ended December 31, 2015 and 2014, retirement plan expense totaled approximately $92,800 and $77,400, respectively.

(continued)

(13) Medical Malpractice Claims Coverage

The Corporation maintains professional liability coverage on a claims-made basis through a commercial insurance carrier. Other than for premiums paid under this policy, no provision has been made for estimated losses. Management believes no incidents have occurred or will be asserted that will exceed the Corporation's insurance coverages or will have a material adverse effect on the consolidated financial statements.

(14) Temporarily Restricted Net Assets

Temporarily restricted net assets as of December 31 are available for the following purposes:

Endowment:		2015	2014
Benevolent Care	$	204,390	188,726
Scholarships		1,171	2,155
		205,561	190,881
Other		11,696	11,463
	$	217,257	202,344

Net assets of $2,448 and $2,329 were released from restriction during 2015 and 2014, respectively, in satisfaction of the above restrictions.

(15) Permanently Restricted Net Assets

Permanently restricted net assets are allocated for the following purposes at December 31:

Endowment:		2015	2014
Benevolent Care	$	326,253	326,253
Scholarship		47,851	45,851
	$	374,104	372,104

(16) Endowment

The endowments consist of donor restricted funds established for a variety of purposes supporting the Corporation. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Trustees of the Corporation has interpreted the relevant state law as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as unrestricted and temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by the relevant state law and donor imposed stipulations. Unless specifically defined, a donor-restricted endowment fund that is required by donor stipulation to accumulate or appropriate endowment funds, the Corporation considers the following factors:

(1) The duration and preservation of the fund
(2) The purposes of the organization and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and appreciation of investments
(6) Other resources of the organization
(7) The investment policies of the organization

(16) Endowment (continued)

The following schedule represents the changes in endowment net assets for the year ended December 31, 2015.

		Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$	190,881	372,104	562,985
Investment return:				
Investment income		17,128	–	17,128
Contributions		–	2,000	2,000
Appropriation of endowment assets for expenditures		(2,448)	–	(2,448)
Endowment net assets, end of year	$	205,561	374,104	579,665

The following schedule represents the changes in endowment net assets for the year ended December 31, 2014.

		Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$	176,356	370,104	546,460
Investment return:				
Investment income		16,625	–	16,625
Contributions		–	2,000	2,000
Appropriation of endowment assets for expenditures		(2,100)	–	(2,100)
Endowment net assets, end of year	$	190,881	372,104	562,985

(16) Endowment (continued)

Funds with Deficiencies

The fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the relevant state law requires the Corporation to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, these deficiencies are reported as unrestricted net assets. There were no such deficiencies reported at December 31, 2015 or 2014.

Return Objectives and Risk Parameters

The Corporation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Corporation must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a composite of public market indexes based on the mix of investments held, while assuming a moderate level of investment risk. The Corporation expects its endowment funds, over time, to provide an average rate of return of approximately the consumer price index plus the investment spending percentage plus one percent annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

The Corporation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Corporation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

(16) Endowment (continued)

Endowment Spending Policy and How the Investment Objectives Relate to the Spending Policy

The Corporation has a total return policy for calculating the amounts available for distribution each year. It is a percent of its endowment fund's average fair value over the prior three calendar year ends. This percentage was 3.0% for both 2015 and 2014. Actual distributions are for specific projects approved by the Board of Directors. If the total return amount exceeds the actual earnings of the Endowment Funds in any one year, then the amount needed to fund such excess will first be taken from the accumulated excess earnings from prior years, then from the accumulated net capital gains of Endowment Funds and, conversely, any undistributed income after the allocation of the total return distribution is added back to the unrestricted or temporarily restricted fund balance. In establishing this policy, the Corporation considered the long-term expected return on its endowment assets. Accordingly, over the long term, the Corporation expects the current spending policy to allow its endowment funds to grow at an average of inflation plus one percent annually. For both 2015 and 2014 an allocation of three percent of the prior year's balance was used to calculate restricted funds available balance. This is consistent with the Corporation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

(17) Financial Instruments

(a) Fair Values of Financial Instruments

The following valuation techniques were used to measure the fair value of each class of financial instruments:

Money market funds, equity and fixed income securities: Fair value of money market funds and equity and fixed income securities was based on quoted market prices for the identical security.

Long-term debt: Long-term debt is carried at cost in the consolidated statements of financial position for bonds payable at December 31, 2015 and 2014. Fair value is based on quoted market prices for the same or similar issues. The total outstanding was $14,505,000 and $15,115,000 at December 31, 2015 and 2014, respectively. The carrying amounts of these bonds payable approximate their fair value.

(17) Financial Instruments (continued)

The Corporation has a number of other financial instruments, none of which are held for investment purposes. The Corporation estimates that the fair value of all financial instruments at December 31, 2015 and 2014 does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying consolidated statements of financial position.

The standards for accounting for fair value measurements established a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under these standards are as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities

Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. There have been no changes in the methodologies used to measure fair value at December 31, 2015 or 2014.

For assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2015 are as follows:

Description	Total	Level 1
Money market funds	$ 359,807	359,807
Equity securities	3,174,500	3,174,500
Fixed income securities	589,400	589,400
Total investments	$ 4,123,707	4,123,707

(17) Financial Instruments (continued)

For assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2014 are as follows:

Description		Total	Level 1
Money market funds	$	336,938	336,938
Equity securities		3,087,799	3,087,799
Fixed income securities		904,132	904,132
Total investments	$	4,328,869	4,328,869

(b) Financial Instruments with Off-Balance-Sheet Risk

Financial instruments with off-balance-sheet risk to the Corporation consist of certain financial guarantees of its affiliates and letters of credit obtained from various financial institutions. The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instrument is represented by the contractual amount of those obligations.

(18) Other Matters

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which contemplates continuation of the Corporation as a going concern. As of December 31, 2015 and 2014, the Corporation carried unrestricted net liabilities of $24,235,365 and $23,280,382, respectively. The unrestricted net liabilities are reflective of the amount due to an affiliated entity of $22,756,431 and $21,025,499.

As such, the continued operations of the Corporation are dependent on continued Presbyterian Senior Living financial support and subordination of its related party debt to operating requirements and external debt repayments. Presbyterian Senior Living has agreed that the related party debt shall be subordinated to principal and interest payments on the Corporation's long-term indebtedness.

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

Consolidated Financial Statements

December 31, 2016 and 2015

(With Independent Auditor's Report Thereon)

Arnett Carbis Toothman llp
CPAs & Advisors

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

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Certification of Chief Executive and Chief Financial Officers

We are responsible for the consolidated financial statements of Presbyterian Senior Living Services, Inc., as of December 31, 2016 and 2015, and attest that they are accurate, complete and fairly presented.

The accuracy and completeness of financial information depends on our systems, process, and most importantly our integrity. Our commitment to integrity is reflected in the code of conduct that the leadership of Presbyterian Senior Living has established as the standard for the entire organization. We believe that this commitment, our processes and internal controls produce financial information that can be trusted.

Consolidated financial statements report our financial position and results using numbers and prescribed rules. They also include a significant amount of information that is required by financial reporting standards. We believe these consolidated financial statements disclose information that is important to create a complete picture of our stewardship of financial resources.

Consolidated financial statements alone can never reflect the breadth and depth of our stewardship of this ministry. They do not report on our most significant assets, our employees and volunteers. They also do not reflect our most important stewardship role: our commitment to provide Christian understanding and compassion to those seniors entrusted to our care. We believe that we continue to successfully fulfill the financial and non-financial aspects of our mission, extending a proud tradition of ministry that has served older persons in the name of Christ for the past 90 years.

Finally, we believe in openly and honestly sharing information. Please feel free to contact either of us if you have questions on any part of this report, or if we can be of further assistance in understanding Presbyterian Senior Living's mission.

Stephen E. Proctor Chief Executive Officer Presbyterian Senior Living	Jeffrey J. Davis Chief Financial Officer Presbyterian Senior Living

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Independent Auditor's Report

The Board of Directors
Presbyterian Senior Living Services, Inc.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Presbyterian Senior Living Services, Inc. (an affiliate of PHI, doing business as Presbyterian Senior Living) (the Corporation) which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, and the related consolidated statements of operations and changes in net assets (liabilities) and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entities' preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entities' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Presbyterian Senior Living Services, Inc. as of December 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Going Concern

The accompanying consolidated financial statements have been prepared assuming that Presbyterian Senior Living Services, Inc. will continue as a going concern. As discussed in Note 18 to the consolidated financial statements, the Corporation has suffered recurring losses from operations; its total liabilities exceeds total assets; and the Corporation's continued operations are dependent upon the continued support of Presbyterian Senior Living. This raises substantial doubt about the Corporation's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this support.

Arnett Carbis Toothman LLP

Arnett Carbis Toothman LLP
New Castle, Pennsylvania
April 7, 2017

Arnett
Carbis
Toothman llp
CPAs & Advisors

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

Consolidated Statements of Financial Position

December 31, 2016 and 2015

Assets		2016	2015
Cash and cash equivalents	$	216,790	112,912
Investments		1,400,000	1,300,000
Restricted deposits and funded reserves		1,876,567	1,805,802
Accounts receivable, net		914,865	566,752
Prepaid expenses and other current assets		237,044	206,892
Assets whose use is limited		1,035,701	1,017,905
Pledges receivable		–	5,000
Property and equipment (net of accumulated depreciation of $32,746,628 and $30,812,878, respectively)		28,834,600	29,455,912
Assets under capital leases (net of accumulated amortization of $66,395 and $49,881, respectively)		20,644	37,158
Total assets	$	34,536,211	34,508,333

See accompanying notes to consolidated financial statements.

(Continued)

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

Consolidated Statements of Financial Position

December 31, 2016 and 2015

Liabilities and Net Liabilities		**2016**	**2015**
Accounts payable	$	631,472	631,936
Accrued expenses		486,861	475,818
Resident deposits		56,840	24,000
Entrance fees payable		14,965,039	16,011,397
Deferred revenue – entrance fees		4,188,772	3,858,083
Annuities payable		28,694	51,989
Obligations under capital leases		21,215	37,721
Bonds payable		13,671,191	14,304,962
Due to affiliated entity		24,768,163	22,756,431
Total liabilities		58,818,247	58,152,337
Net assets (liabilities):			
Unrestricted		(24,891,928)	(24,235,365)
Temporarily restricted		233,588	217,257
Permanently restricted		376,304	374,104
Total net liabilities		(24,282,036)	(23,644,004)
Total liabilities and net liabilities	$	34,536,211	34,508,333

See accompanying notes to consolidated financial statements.

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

Consolidated Statements of Operations and Changes in Net Assets (Liabilities)

Years ended December 31, 2016 and 2015

		2016	2015
Operating revenues, gains, and other support:			
Resident services, including amortization of entrance fees of $821,365 and $841,134, respectively	$	12,598,701	13,082,574
Interest and dividend income		106,751	134,318
Realized gains (losses) on investments		52,048	(62,204)
Gains on sale of property and equipment		–	20,404
Contributions, gifts and bequests		6,357	51,527
Net assets released from restrictions		7,504	2,448
Total operating revenues, gains, and other support		12,771,361	13,229,067
Expenses:			
Nursing services		2,275,206	2,419,867
Rehabilitation		536,834	707,663
Recreation and special services		479,899	496,942
Pharmacy		104,928	84,736
Social services		65,633	59,512
Physician services		25,000	25,000
Food services		2,029,191	2,039,377
Building operations and maintenance		2,360,817	2,511,961
Housekeeping		357,750	407,414
Laundry and linen		49,488	50,909
General and administrative		2,182,511	2,170,132
Employee benefits		680,955	696,171
Interest		318,292	276,891
Depreciation		1,950,263	1,902,583
Amortization		16,229	16,229
Fundraising and investment fees		57,081	57,115
Total expenses		13,490,077	13,922,502
Deficit of operating revenues, gains, and other support over expenses		(718,716)	(693,435)
Other changes:			
Unrealized gains (losses) on investments		62,153	(261,548)
Change in unrestricted net liabilities		(656,563)	(954,983)

See accompanying notes to consolidated financial statements.

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

Consolidated Statements of Operations and Changes in Net Assets (Liabilities)

Years ended December 31, 2016 and 2015

		2016	2015
Temporarily restricted net assets:			
Contributions, gifts and bequests		6,215	233
Interest and dividend income		17,620	17,128
Net assets released from restrictions		(7,504)	(2,448)
Change in temporarily restricted net assets		16,331	14,913
Permanently restricted net assets:			
Contributions		2,200	2,000
Change in permanently restricted net assets		2,200	2,000
Change in net liabilities		(638,032)	(938,070)
Net liabilities, beginning of year		(23,644,004)	(22,705,934)
Net liabilities, end of year	$	(24,282,036)	(23,644,004)

See accompanying notes to consolidated financial statements.

PRESBYTERIAN SENIOR LIVING SERVICES, INC.

Consolidated Statements of Cash Flows

Years ended December 31, 2016 and 2015

		2016	2015
Cash flows from operating activities:			
Change in net liabilities	$	(638,032)	(938,070)
Adjustments to reconcile change in net liabilities to net cash provided by operating activities:			
Depreciation		1,950,263	1,902,583
Provision for bad debts		(20,936)	(16,374)
Proceeds from non-refundable entrance fees and deposits		3,885,969	4,140,044
Amortization of entrance fees		(821,365)	(841,134)
Unrealized (gains) losses on investments		(62,153)	261,548
Realized (gains) losses on investments		(52,048)	62,204
Gains on sale of property and equipment		–	(20,404)
Contributions restricted for long-term purposes		(2,200)	(2,000)
Amortization		16,229	16,229
Change in assets and liabilities:			
Accounts receivable		(171,617)	231,593
Entrance fees receivable		(155,560)	(65,409)
Pledges receivable		5,000	(5,000)
Prepaid expenses and other current assets		(30,152)	62,233
Accounts payable		(464)	(433,966)
Accrued expenses		11,043	52,036
Net cash provided by operating activities		3,913,977	4,406,113
Cash flows from investing activities:			
Acquisition of property and equipment		(1,312,437)	(1,287,153)
Net proceeds from sale of property and equipment		–	179,782
Purchases of investments		(3,292,873)	(1,764,012)
Proceeds from sale of investments		3,218,513	1,645,422
Net cash used in investing activities		(1,386,797)	(1,225,961)
Cash flows from financing activities:			
Refunds of entrance fees and deposits		(2,701,075)	(3,160,152)
Change in entrance fee payable		(1,046,358)	(1,277,254)
Principal payments and redemptions of bonds		(650,000)	(610,000)
Repayments on capital lease obligations		(16,506)	(20,412)
Contributions restricted for long-term purposes		2,200	2,000
Change in annuities payable		(23,295)	24,110
Change in due to affiliated entity		2,011,732	1,730,932
Net cash used in financing activities		(2,423,302)	(3,310,776)
Net increase (decrease) in cash and cash equivalents		103,878	(130,624)
Cash and cash equivalents, beginning of year		112,912	243,536
Cash and cash equivalents, end of year	$	216,790	112,912
Supplemental schedule of non-cash investing activities			
Decrease in assets held for sale through increase in property and equipment	$	–	39,724

See accompanying notes to consolidated financial statements.

(1) General Information

Presbyterian Senior Living Services, Inc. (the Corporation) is a not-for-profit corporation, which operates Glen Meadows Retirement Community, a Continuing Care Retirement Community (the Community) located in Glen Arm, Maryland, which provides housing, health care, and other related services to the elderly. The Corporation is also the parent company to a fully controlled affiliate, Glen Meadows Retirement Community, Inc. (GMRCI). The Glen Meadows Foundation (the Foundation) was established for the exclusive benefit of the Community and certain assets held by the Corporation are designated for the Foundation. The consolidated financial statements of the Corporation include the financial position and operations of GMRCI and the Foundation. The Corporation and Foundation are governed by independent Boards of Directors, who are elected by the Board of Trustees of PHI, doing business as Presbyterian Senior Living, the Corporation's parent organization, the residents of Glen Meadows and the Presbytery of Baltimore.

The Community contains 112 independent living cottages, 89 independent living apartments, 36 assisted living units and a 31-bed skilled nursing facility. The Community covers approximately 60 acres of the 483-acre site owned by the Corporation.

The Corporation was formed on July 1, 1999, whereby all operations of Presbyterian Senior Services, Inc. (PSSI) were transferred to Presbyterian Senior Living Services, Inc. and Glen Meadows Retirement Community, Inc. PSSI's corporate existence was discontinued. Under this new structure, the property, plant and certain equipment of PSSI were transferred to Glen Meadows Retirement Community, Inc., and the operations, other assets, and all liabilities of PSSI were transferred to Presbyterian Senior Living Services, Inc. Presbyterian Senior Living Services, Inc. is a fully controlled subsidiary of Presbyterian Senior Living, located in Dillsburg, Pennsylvania.

(2) Summary of Significant Accounting Policies

(a) Basis of Consolidation

These consolidated financial statements have been prepared to focus on Presbyterian Senior Living Services, Inc. as a whole. All material intercompany transactions have been eliminated.

(b) Basis of Accounting

These consolidated financial statements, which are presented on the accrual basis of accounting, have been prepared to focus on the Corporation as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions.

(b) Basis of Accounting (continued)

Revenues are reported as increases in unrestricted net assets (liabilities) unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets (liabilities). Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets (liabilities) unless their use is restricted by explicit donor stipulation or by law.

(c) Income Taxes

The Corporation and its subsidiaries are not-for-profit organizations as described in Section 501(c)(3) of the Internal Revenue Code (Code) and have been recognized as tax exempt under Section 501(a) of the Code.

The Corporation follows the Financial Accounting Standards Board (FASB) accounting standard for accounting for uncertainty in income taxes. This standard clarifies the accounting for uncertainty in income taxes in a company's consolidated financial statements and prescribes a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold has been met. The standard also provides guidance on derecognition, classification, interest and penalties, and disclosure. Management has determined that this standard does not have a material impact on the consolidated financial statements.

The Corporation is part of a consolidated federal Exempt Organization Business Income Tax Return for which the years ended December 31, 2013, 2014 and 2015, remain subject to examination by the Internal Revenue Service.

(d) Use of Estimates

The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(e) Cash and Cash Equivalents

The Corporation considers all liquid investments with a maturity of three months or less when purchased to be cash equivalents, for the purposes of the consolidated statements of financial position and cash flows, except for those included in investments or assets whose use is limited. The Corporation's cash and cash equivalents are insured by the Federal Deposit Insurance Corporation (FDIC) for up to $250,000 per bank. At times during 2016 and 2015, the Corporation's cash balances may have exceeded the FDIC coverage. The Corporation has not experienced any loss in these accounts.

(f) Investments

Investments in marketable equity securities and mutual funds with readily determinable fair values and all investments in debt securities are measured at fair value as determined by a national exchange on the consolidated statements of financial position. A decline in market value of any investment below cost that is deemed to be other than temporary results in a reduction in carrying amount to fair value. The impairment is charged to realized loss and a new cost basis for the investment is established. For the years ended December 31, 2016 and 2015, no amounts were charged to realized loss for this purpose as management believes the decline in value is temporary due to general economic conditions and not an other than temporary decline in value.

Investment income (loss) consisted of the following for the years ended December 31:

	2016	2015
Interest and dividends	$ 124,371	151,446
Realized gains (losses) on investments	52,048	(62,204)
Unrealized gains (losses) on investments	62,153	(261,548)
	$ 238,572	(172,306)

Investment expenses of $14,112 and $14,060, for the years ended December 31, 2016 and 2015, respectively, have been included in fundraising and investment fees on the consolidated statements of operations and changes in net assets (liabilities).

(g) Accounts Receivable

Accounts receivable are shown net of an estimated allowance for doubtful accounts is as follows as of December 31:

		2016	2015
Total accounts receivable	$	949,063	647,053
Less: allowance for doubtful accounts		(34,198)	(80,301)
Net accounts receivable	$	914,865	566,752

The allowance for doubtful accounts is established based on management's assessment of the collectability of specific customer accounts and the aging of the accounts receivable. Losses are charged against the allowance for doubtful accounts when management believes the uncollectability of a receivable is likely. During 2016 management reviewed the estimate related to the manner in which the allowance for doubtful accounts is calculated to provide a better estimate of the amounts reasonably expected to be collected. Prior to the change, aged receivables older than six months were fully reserved. Under the new estimate, receivables aged older than six months are reserved at the following amounts:

Private pay	75%
Managed care and other	100%
Medicaid and Medicaid pending	20%
Coinsurance	75%
Medicare Part A and B	20%

The impact of the change in estimate is a decrease to the allowance for doubtful accounts by $23,000.

(h) Restricted Deposits and Funded Reserves

Restricted deposits and funded reserves are measured at fair value in the consolidated statements of financial position and include the Maryland Department of Aging Operating Reserve.

(i) Assets Whose Use is Limited

Assets whose use is limited are measured at fair value on the consolidated statements of financial position and include money deposited with a trustee under a debt agreement and assets restricted by donors for capital improvements and charity care.

(j) ***Property and Equipment and Assets under Capital Leases***

Property and equipment and assets under capital leases are stated at cost or, if donated, at fair market value on the date of donation. Depreciation is being provided on the straight-line method over the estimated useful lives of the assets for property and equipment. Depreciation is being provided on the straight-line method over the shorter of estimated useful lives of assets, or the lease term for assets under capital leases. The Corporation's policy is to capitalize items in excess of $3,000 or for a group of items that are the same or similar in nature or function as a group totaling $3,000 or more.

Depreciable lives are determined as follows:

Land improvements	15-25 years
Buildings and improvements	10-40 years
Departmental equipment, furniture, and fixtures	10-25 years
Vehicles	5 years

(k) ***Deferred Financing Costs***

The Corporation has deferred the costs incurred for obtaining the proceeds of the Corporation's bonds payable. These costs are being amortized over the life of the related bond using the straight-line method, which approximates the effective interest method. Amortization expense is expected to be $16,229 for each of the next five years. Guidance was issued that requires deferred financing costs related to a recognized debt liability to be presented on the consolidated statements of financial position as a direct deduction from the carrying amount of the related debt liability. The Corporation adopted this guidance during the year ended December 31, 2016 (Note 9).

(l) ***Resident Deposits***

Entrance fees and waiting list deposits received from prospective residents prior to occupancy under Residence and Care Agreements are included in resident deposits on the consolidated statements of financial position. These deposits are transferred to deferred revenue upon occupancy of the related independent living units.

(m) Deferred Revenue – Entrance Fees

Residents entering the Community execute a Residence and Care Agreement, which requires payment of an entrance fee, based on the unit to be occupied. Ten percent of the entrance fee, as approved by the Maryland Department of Aging, is due upon execution of the agreement and the remainder is due upon occupancy. For the 100% refundable contracts, entrance fees are refundable in full upon termination of the agreement and subsequent reoccupancy of the unit. These entrance fees are not being amortized into revenue and are reflected as a liability in entrance fee payable on the consolidated statements of financial position. The Community also offers a 50% and a 75% nonrefundable contract. The non-refundable portion of the fees is amortized to income over the estimated remaining life expectancy of each resident. The portion of the guaranteed fee refundable upon reoccupancy is not being amortized and is reflected as a liability in entrance fee payable on the consolidated statements of financial position. The agreements provide for potential death or termination refunds of the non-refundable portion if reoccupancy occurs before the contractual amortization is completed in accordance with the terms of the agreements. The remaining amount of unamortized, nonrefundable entrance fees is recorded as revenue upon surrender of the independent living unit.

As of December 31, 2016 and 2015, the amount of entrance fees guaranteed to be refundable to residents under contractual refund provisions was $14,965,039 and $16,011,397, respectively.

(n) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Corporation has been limited by donors to a specific time period or purpose. The Corporation's temporarily restricted net assets consist principally of funds directed for special projects and resident welfare. Net assets released from restriction consist of expenses incurred satisfying those restricted purposes. Permanently restricted net assets have been restricted by donors to be maintained by the Corporation in perpetuity. Income from the permanently restricted net assets is primarily to be used for resident welfare.

(o) Donor Restrictions

The Corporation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose to which the donation is restricted is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported on the consolidated statements of operations and changes in net assets (liabilities) as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying consolidated financial statements.

The Corporation reports non-cash gifts as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Corporation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

(p) Resident Services Revenue and Business Concentration

Resident services revenue is reported at the estimated net realizable amount to be received from patients and others including Medicare, Maryland Medicaid (Medicaid), and other third-party payors for services rendered. The Corporation derives a significant portion of its revenues from federal and state reimbursement programs. These reimbursements are subject to audit and retroactive adjustment in future periods.

Skilled nursing services provided to Medicare beneficiaries are paid under the terms of a prospective payment system ("PPS") at predetermined rates based on clinical, diagnostic, and other factors.

Nursing services provided to Medicaid beneficiaries are paid at prospectively determined rates per day. These rates vary according to a resident classification system that is based on clinical diagnosis and other factors, and the reimbursement methodology is subject to various limitations and adjustments. The Corporation's existence in Maryland exposes it to the risk of changes in Medicaid reimbursement in this state.

Revenues from Medicare and Medicaid represent approximately 18% and 20% of consolidated revenues for 2016 and 2015, respectively. Medicare and Medicaid receivables represent approximately 31% and 39% of consolidated accounts receivable as of December 31, 2016 and 2015, respectively.

(Continued)

(q) Charity Care

The Corporation follows the Financial Accounting Standards Board accounting standards update. This standard provides improved disclosures about charity care to prescribe a specific measurement basis of charity care. This guidance prescribed that the amount of charity care disclosed in the consolidated financial statements should be measured based on the providers direct and indirect costs of providing charity care services. The guidance also provided that if costs cannot be specifically attributed to services provided to charity care patients, that reasonable techniques could be used to estimate these costs, and that these techniques should be disclosed and that any funds received to offset or subsidize charity care services also should be disclosed.

The Corporation's policy is to provide services without charge, or at amounts less than its established rates, to residents who meet the certain need based criteria. These criteria consider resident income and expenses, financial resources, state and federal government requirements, and other sources of payment for services which may be provided. The Corporation also receives donations and income from permanently restricted trusts and investments designated to the needs of its residents under this policy.

Amounts the Corporation provided and received for resident financial support are as follows for the years ended December 31:

	2016	2015
Charity care provided at the estimated cost thereof, net of amounts received from residents and third-party payors	$ 415,917	407,561
Additional benevolent care provided at amounts less than pre-established charges for private pay services	552,017	328,524
Giving and income designated for resident financial support	23,591	33,273

(r) *Classification of Expenses*

Expenses incurred are classified as follows for the years ended December 31:

		2016	2015
Program activities	$	11,250,485	11,695,255
General and administrative		2,196,623	2,184,192
Fundraising		42,969	43,055
	$	13,490,077	13,922,502

(s) *Advertising*

Advertising costs are expensed in the years incurred. Total advertising expense for the years ended December 31, 2016 and 2015, were $13,046 and $11,707, respectively.

(t) *Contributed Services*

Contributed services are reflected in the accompanying consolidated financial statements at their estimated fair value at the date of receipt to the extent they create or enhance nonfinancial assets or require specialized skills which, if not provided by donation, would have to be purchased by the Corporation. No amounts have been included in the accompanying consolidated financial statements as amounts are not material.

(u) *Performance Indicator*

The Corporation measures the performance of its operations using the consolidated statements of operations and changes in net assets (liabilities), which includes a performance indicator of operations labeled as "Deficit of operating revenues, gains, and other support over expenses." Changes in unrestricted net (liabilities) which are excluded from this measure are unrealized gains (losses) on investments.

(v) *Consolidated Statements of Cash Flows*

Interest paid for the years ended December 31, 2016 and 2015, amounted to $315,890 and $276,571, respectively.

(w) ***Reclassifications***

Certain reclassifications have been made to the 2015 consolidated financial statements to conform to the presentation of 2016.

(x) ***Subsequent Events***

The Corporation has adopted the standard related to subsequent events. This standard provides guidance on accounting for and disclosure of events that occur after the consolidated statement of financial position date but before consolidated financial statements are issued or are available to be issued.

The Corporation has evaluated subsequent events through April 7, 2017, which is the date the consolidated financial statements were released.

(3) Investments

The cost and fair value of investments as of December 31 are as follows:

		2016		2015	
		Fair Value	Cost	Fair Value	Cost
Money market funds	$	375,461	375,461	359,807	359,807
Equity securities		3,210,931	3,160,495	3,174,500	3,165,855
Fixed income securities		725,876	750,474	589,400	616,615
Totals		4,312,268	4,286,430	4,123,707	4,142,277
Less:					
Restricted deposits and funded reserves (Note 5)		(1,876,567)		(1,805,802)	
Assets whose use is limited (Note 6)		(1,035,701)		(1,017,905)	
Total investments	$	1,400,000		1,300,000	

The Corporation holds its investments in the operating reserve fund. These assets are invested in a diversified portfolio of mutual funds. The Corporation had twenty mutual funds as of December 31, 2016 and 2015. As of December 31, 2016, ten mutual funds had a market value below cost and as of December 31, 2015, twelve mutual funds had a market value below cost.

(3) Investments (continued)

Six mutual funds had a market value that had been below cost for less than a year as of December 31, 2016. In total, their market value of the loss was less than three percent below cost for 2016. Eleven mutual funds had a market value that had been below cost for less than a year as of December 31, 2015. In total, their market value of the loss was less than nine percent below cost for 2015.

Four mutual funds had a market value that had been below cost for more than one year as of December 31, 2016. In total, their market value was less than seven percent below cost for 2016. One mutual fund had a market value that had been below cost for more than one year as of December 31, 2015. In total, its market value was less than four percent below cost for 2015.

A summary of investments with fair values below cost as of December 31, 2016, follows:

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mututal funds	$ 1,143,136	(26,857)	951,830	(63,306)	2,094,966	(90,163)
Total temporarily impaired investments	$ 1,143,136	(26,857)	951,830	(63,306)	2,094,966	(90,163)

A summary of investments with fair values below cost as of December 31, 2015, follows:

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mututal funds	$ 1,989,884	(195,240)	397,991	(14,867)	2,387,875	(210,107)
Total temporarily impaired investments	$ 1,989,884	(195,240)	397,991	(14,867)	2,387,875	(210,107)

(4) Related Party Transactions

The Corporation incurs a management fee payable to Presbyterian Senior Living, under a Development, Marketing, and Management Agreement (Management Agreement). Under the Management Agreement, Presbyterian Senior Living provides a full-time licensed administrator who is responsible for the Community's operation, under the direction of Presbyterian Senior Living, a full-time bookkeeper and a human resources employee. The Corporation incurred fees under the agreement of $1,240,548 and $1,175,220 for the years ended 2016 and 2015, respectively. This fee is classified as general and administrative expenses on the consolidated statements of operations and changes in net assets (liabilities).

The Obligated Group, which consists of several subsidiaries of Presbyterian Senior Living, has guaranteed full payment to the extent collateral is insufficient to satisfy the outstanding debt of the Corporation as described in Note 9.

As of December 31, 2016 and 2015, the amounts payable to Presbyterian Senior Living were $24,768,163 and $22,756,431, respectively. Under the Management Agreement, this is included in due to affiliated entity on the consolidated statements of financial position.

Prelude Systems, Inc. (Prelude) is a joint venture between Presbyterian Senior Living and Diakon Lutheran Social Ministries (Diakon). Prelude is an information technology services organization with a wide range of programs designed to support the information systems needs of Presbyterian Senior Living and Diakon as well as other health care and community service organizations. During 2016 and 2015, the Corporation incurred expenses related to Prelude of $95,736 and $132,564, respectively, for information services provided by Prelude, of which $3,564 and $7,339 is included in accounts payable as of December 31, 2016 and 2015, respectively.

(5) Restricted Deposits and Funded Reserves

The Corporation is required by the Maryland Department of Aging to maintain and fund an operating reserve based on the Corporation's operating expenses for the most recent fiscal year, excluding depreciation and amortization. The Department of Aging required the Corporation to build the level of this operating reserve over a period not to exceed ten years beginning in 1997. Annual contributions to the operating reserve equaling at least 15% of the calculated reserve amount are required. As of December 31, 2016, the operating reserve fund balance was $1,876,567, representing cumulative contributions and earnings in satisfaction of the minimum operating reserve amount. No additional contributions are anticipated to be made during 2017 based on the following computation:

Total 2015 operating expenses:	$	13,922,502
Less: Depreciation		(1,902,583)
Amortization		(16,229)
Total expenses subject to operating reserve computation	(A)	12,003,690
Operating reserve requirement – 15% of (A)		1,800,554
Operating reserve fund as of December 31, 2016		1,876,567
Excess contributions as of December 31, 2016	$	(76,013)

(6) Assets Whose Use is Limited

As of December 31 assets whose use is limited consist of the following:

		2016	2015
Designated for renovation and charity care	$	694,303	696,134
Other reserves required by financing arrangement		341,398	321,771
Assets whose use is limited	$	1,035,701	1,017,905

The Corporation's Board of Directors has designated certain funds toward the purpose of acquiring or renovating property and equipment and for providing charity care.

(7) Commitments and Contingencies

The Corporation is involved in legal proceedings arising from its activities in the health care industry. Although it is not possible to presently determine the outcome of these matters, management believes the aggregate liability, if any, resulting from such proceedings will not have a material adverse effect on the Corporation's assets, liabilities, net assets, operations, or cash flows.

(8) Property and Equipment

A summary of property and equipment and accumulated depreciation as of December 31 is as follows:

	2016		2015	
	Cost	Accumulated depreciation	Cost	Accumulated depreciation
Land	$ 14,182,370	–	14,182,370	–
Land improvements	3,020,156	2,238,917	3,016,607	2,100,209
Buildings and improvements	41,334,808	27,903,388	39,941,622	26,206,159
Departmental equipment, furniture and fixtures	2,757,928	2,348,330	2,640,996	2,250,517
Vehicles	255,993	255,993	255,993	255,993
Construction-in-progress	29,973	–	231,202	–
	$ 61,581,228	32,746,628	60,268,790	30,812,878
Net book value		$ 28,834,600		$ 29,455,912

Land consists of 483 acres, of which 60 acres are utilized for the Community. The remaining land is leased to independent parties and may be available for future expansion.

In 2015, management sold the last of six rental properties that were all located within the community. The final unit was sold for approximately $180,000 and a gain of $20,404 was recognized.

(9) Bonds Payable

Bonds payable as of December 31 consist of the following:

		2016	2015
Maryland Health and Higher Educational Facilities Authority Revenue Bonds Series 1999A, tax exempt variable rate debenture bonds, principal maturities in varying amounts from 2012 to 2029, interest adjusted weekly, 0.70% and 0.01% as of December 31, 2016 and 2015, respectively, collateralized by letter of credit	$	2,690,000	2,835,000
Maryland Health and Higher Educational Facilities Authority Revenue Bonds Series 1999B, taxable variable rate debenture bonds, principal maturities in varying amounts from 2001 to 2029, interest adjusted weekly, 0.70% and 0.35% as of December 31, 2016 and 2015, respectively, collateralized by letter of credit		11,165,000	11,670,000
		13,855,000	14,505,000
Less: Deferred financing costs		(183,809)	(200,038)
Total bonds payable	$	13,671,191	14,304,962

Under the terms of the Corporation's 1999 Maryland Health and Higher Educational Facility Authority Revenue Bond indenture, the Corporation is required to maintain certain deposits with a trustee. These deposits are included in assets whose use is limited. The indenture also places limits on the incurrence of additional borrowings and requires the Corporation to satisfy certain measures of financial performance as long as the bonds are outstanding. These covenants were met as of December 31, 2016 and 2015.

Maturities for the five years subsequent to December 31, 2016, and thereafter are as follows:

Years ending December 31,		
2017	$	695,000
2018		745,000
2019		795,000
2020		845,000
2021		905,000
Thereafter		9,870,000
	$	13,855,000

(Continued)

(9) Bonds Payable (continued)

The Corporation has outstanding two letters of credit as of December 31, 2016, as required by the bonds. These letters of credit require the Corporation to pay an annual fee of approximately 1.55% of the principal balance of bonds outstanding. The letters of credit expire March 31, 2018. The letters of credit are collateralized by property and equipment and gross revenues of the Corporation. As described in Note 4, the Obligated Group, which consists of several subsidiaries of Presbyterian Senior Living, has guaranteed full payment to the extent collateral is insufficient to satisfy the outstanding debt of the Corporation.

(10) Leases

The Corporation is obligated under a capital lease for equipment that will expire in 2018. As of December 31 the gross amount of the equipment and the related accumulated amortization recorded under capital leases was as follows:

		2016	2015
Equipment	$	87,039	87,039
Accumulated amortization		(66,395)	(49,881)
	$	20,644	37,158

A schedule of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of December 31, 2016, follows:

2017	$	16,200
2018		5,400
		21,600
Amounts representing interest		(385)
Present value of minimum lease payments	$	21,215

Amortization expense of $16,514 and $20,708 for the years ended December 31, 2016 and 2015, respectively, for the assets held under capital leases is included in depreciation expense on the consolidated statements of operations and changes in net assets (liabilities). Interest rates on the capital leases range from 2.5% to 2.6% for the years ended December 31, 2016 and 2015.

(10) Leases (continued)

The Corporation leases certain equipment under operating leases, which expire at various dates through 2017. The future minimum lease payments under these operating leases are as follows as of December 31, 2016:

2017	$ 14,496

Rental expense under operating leases was $65,264 and $52,988 for the years ended December 31, 2016 and 2015, respectively.

(11) Annuities

The Corporation has a gift annuity program. In return for their gifts, donors are paid a fixed annuity amount during the lifetime of the donor and/or the donor's beneficiary, which creates a liability of the Corporation. Total annuities payable was $28,694 and $51,989 as of December 31, 2016 and 2015, respectively. The Corporation uses published mortality-rate tables adopted by the United States Internal Revenue Service and an assumed discount rate of approximately four percent to determine the present value of the actuarially determined liability. The Corporation has assets included in investments of approximately $135,000 and $167,000 as of December 31, 2016 and 2015, respectively, to satisfy annuities.

(12) Retirement Plan

The Corporation participates in the defined-contribution retirement plan of Presbyterian Senior Living. This plan covers all employees who have completed one year of service and have reached the age of 21. Vesting occurs after three years of service. Contributions to the plan are at the discretion of the Board of Trustees of Presbyterian Senior Living, and employees have the ability to direct how their contributions are invested. For the years ended December 31, 2016 and 2015, retirement plan expense totaled approximately $90,000 and $92,800, respectively.

(Continued)

(13) Medical Malpractice Claims Coverage

The Corporation maintains professional liability coverage on a claims-made basis through a commercial insurance carrier. Other than for premiums paid under this policy, no provision has been made for estimated losses. Management believes no incidents have occurred or will be asserted that will exceed the Corporation's insurance coverages or will have a material adverse effect on the consolidated financial statements.

(14) Temporarily Restricted Net Assets

Temporarily restricted net assets as of December 31 are available for the following purposes:

Endowment:	2016	2015
Benevolent Care	$ 220,539	204,390
Scholarships	1,479	1,171
	222,018	205,561
Other	11,570	11,696
	$ 233,588	217,257

Net assets of $7,504 and $2,448 were released from restriction during 2016 and 2015, respectively, in satisfaction of the above restrictions.

(15) Permanently Restricted Net Assets

Permanently restricted net assets are allocated for the following purposes as of December 31:

Endowment:	2016	2015
Benevolent Care	$ 327,453	326,253
Scholarship	48,851	47,851
	$ 376,304	374,104

(16) Endowment

The endowments consist of donor restricted funds established for a variety of purposes supporting the Corporation. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Trustees of the Corporation has interpreted the relevant state law as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as unrestricted and temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by the relevant state law and donor imposed stipulations. Unless specifically defined, a donor-restricted endowment fund that is required by donor stipulation to accumulate or appropriate endowment funds, the Corporation considers the following factors:

(1) The duration and preservation of the fund
(2) The purposes of the organization and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and appreciation of investments
(6) Other resources of the organization
(7) The investment policies of the organization

(16) Endowment (continued)

The following schedule represents the changes in endowment net assets for the year ended December 31, 2016.

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 205,561	374,104	579,665
Investment return:			
Investment income	17,620	–	17,620
Contributions	–	2,200	2,200
Appropriation of endowment assets for expenditures	(1,163)	–	(1,163)
Endowment net assets, end of year	$ 222,018	376,304	598,322

The following schedule represents the changes in endowment net assets for the year ended December 31, 2015.

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 190,881	372,104	562,985
Investment return:			
Investment income	17,128	–	17,128
Contributions	–	2,000	2,000
Appropriation of endowment assets for expenditures	(2,448)	–	(2,448)
Endowment net assets, end of year	$ 205,561	374,104	579,665

(Continued)

(16) Endowment (continued)

Funds with Deficiencies

The fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the relevant state law requires the Corporation to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, these deficiencies are reported as unrestricted net assets. There were no such deficiencies reported as of December 31, 2016 or 2015.

Return Objectives and Risk Parameters

The Corporation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Corporation must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a composite of public market indexes based on the mix of investments held, while assuming a moderate level of investment risk. The Corporation expects its endowment funds, over time, to provide an average rate of return of approximately the consumer price index plus the investment spending percentage plus one percent annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

The Corporation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Corporation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

(16) Endowment (continued)

Endowment Spending Policy and How the Investment Objectives Relate to the Spending Policy

The Corporation has a total return policy for calculating the amounts available for distribution each year. It is a percent of its endowment fund's average fair value over the prior three calendar year ends. This percentage was 3.0% for both 2016 and 2015. Actual distributions are for specific projects approved by the Board of Directors. If the total return amount exceeds the actual earnings of the endowment funds in any one year, then the amount needed to fund such excess will first be taken from the accumulated excess earnings from prior years, then from the accumulated net capital gains of endowment funds and, conversely, any undistributed income after the allocation of the total return distribution is added back to the unrestricted or temporarily restricted fund balance. In establishing this policy, the Corporation considered the long-term expected return on its endowment assets. Accordingly, over the long term, the Corporation expects the current spending policy to allow its endowment funds to grow at an average of inflation plus one percent annually. For both 2016 and 2015 an allocation of three percent of the prior year's balance was used to calculate restricted funds available balance. This is consistent with the Corporation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

(17) Financial Instruments

(a) Fair Values of Financial Instruments

The following valuation techniques were used to measure the fair value of each class of financial instruments:

Money market funds, equity and fixed income securities: Fair value of money market funds and equity and fixed income securities was based on quoted market prices for the identical security.

Long-term debt: Long-term debt is carried at cost on the consolidated statements of financial position for bonds payable as of December 31, 2016 and 2015. Fair value is based on quoted market prices for the same or similar issues. The total outstanding was $13,855,000 and $14,505,000 as of December 31, 2016 and 2015, respectively. The carrying amounts of these bonds payable approximate their fair value.

(17) Financial Instruments (continued)

The Corporation has a number of other financial instruments, none of which are held for investment purposes. The Corporation estimates that the fair value of all financial instruments as of December 31, 2016 and 2015, does not differ materially from the aggregate carrying values of its financial instruments recorded on the accompanying consolidated statements of financial position.

The standards for accounting for fair value measurements established a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under these standards are as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. There have been no changes in the methodologies used to measure fair value as of December 31, 2016 or 2015.

For assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used as of December 31, 2016, are as follows:

Description	Total	Level 1
Money market funds	$ 375,461	375,461
Equity securities	3,210,931	3,210,931
Fixed income securities	725,876	725,876
Total investments	$ 4,312,268	4,312,268

(17) Financial Instruments (continued)

For assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used as of December 31, 2015, are as follows:

Description		Total	Level 1
Money market funds	$	359,807	359,807
Equity securities		3,174,500	3,174,500
Fixed income securities		589,400	589,400
Total investments	$	4,123,707	4,123,707

(b) *Financial Instruments with Off-Balance-Sheet Risk*

Financial instruments with off-balance-sheet risk to the Corporation consist of certain financial guarantees of its affiliates and letters of credit obtained from various financial institutions. The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instrument is represented by the contractual amount of those obligations.

(18) Other Matters

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which contemplates continuation of the Corporation as a going concern. As of December 31, 2016 and 2015, the Corporation carried unrestricted net liabilities of $24,891,928 and $24,235,365, respectively. The unrestricted net liabilities are reflective of the amount due to an affiliated entity of $24,768,163 and $22,756,431.

As a result, the continued operations of the Corporation are dependent on continued Presbyterian Senior Living financial support and subordination of its related party debt to operating requirements and external debt repayments. Presbyterian Senior Living has agreed that the related party debt shall be subordinated to principal and interest payments on the Corporation's long-term indebtedness.

(19) Subsequent Event

Subsequent to December 31, 2016, the Corporation entered into an agreement with a financial institution to refinance the Maryland Health and Higher Educational Facilities Authority Revenue Bonds Series 1999A and 1999B at a fixed interest rate of 4.15% for the first five years, and then at a floating variable rate for an additional five years thereafter. The Corporation anticipates closing on this loan during the second quarter of 2017.